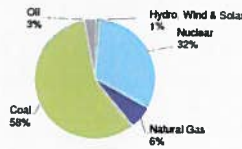
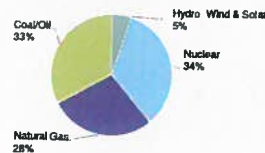


Exhibit 7  
 2005 Fuel Diversity



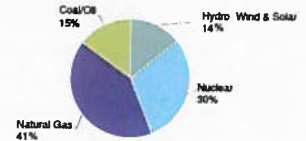
Source: Company

Exhibit 8  
 2018 Fuel Diversity



Source: Company

Exhibit 9  
 2030 Fuel Diversity [1]



[1] Company Estimate  
 Source: Company

### Liquidity analysis

Duke has an adequate liquidity profile, with about \$368 million of cash and short-term investments on hand as of year-end December 31, 2018. The company's external liquidity sources include a bank master credit facility with a capacity of \$8 billion maturing on March 16, 2023. The master credit facility includes sub-limits for each of its utility subsidiaries and supports a \$4.85 billion commercial paper program. The facility does not contain a material adverse change clause for new borrowings and has a single financial covenant requiring that Duke and its utility subsidiaries each maintain a consolidated debt to capitalization ratio of no more than 65%, except for Piedmont. The debt to capital covenant for Piedmont is a maximum of 70%. As of December 31, 2018, Duke reported that all of the borrowing entities were in compliance with this covenant and we estimate Duke's consolidated ratio to be about 57%.

As of December 31, 2018, Duke's parent company borrowing sub-limit under the master credit facility was \$2.65 billion and the master credit facility included borrowing sub-limits of \$1.4 billion for Duke Energy Progress, \$650 million for Duke Energy Florida, \$1.75 billion for Duke Energy Carolinas, \$600 million for Duke Energy Indiana, \$300 million for Duke Energy Ohio, and \$500 million for Piedmont Natural Gas.

As of December 31, 2018, Duke had about \$3.0 billion of commercial paper outstanding, including about \$900 million at the parent company under its \$2.65 billion credit facility sub-limit. Of the total \$8 billion master credit facility, Duke and its utilities had about \$4.3 billion of availability with \$3.0 billion of commercial paper, \$500 million of coal ash set-aside, \$81 million of tax-exempt bonds, and \$53 million of letters of credit outstanding. Duke also maintains a money pool arrangement among its utility subsidiaries allowing it to more efficiently utilize available cash balances throughout the organization.

In addition to the \$8.0 billion master credit facility, Duke has a three year (June 2020 expiration) \$1.0 billion revolving credit facility that provides additional liquidity to the parent. As of December 31, 2018, Duke had \$500 million drawn under the parent level facility.

As an additional source of liquidity Duke also has the ability to raise short-term debt through a variable rate demand note program called PremierNotes. The company's filings with the SEC indicate that no more than \$1.5 billion of such notes will be outstanding. The notes have no stated maturity date and can be redeemed in whole or in part by Duke or at the investor's option at any time. As of December 31, 2018, Duke had about \$1.01 billion of PremierNotes outstanding. Although not explicitly backed by Duke's bank credit facility, the facility could be used to fund the maturities of such notes. These notes are classified as part of the \$3.4 billion total notes payable and commercial paper outstanding as of December 31, 2018.

Duke's scheduled long-term debt maturities over the twelve months beginning December 31, 2018 total approximately \$31 billion, including approximately \$500 million at the parent level Duke Corp., \$800 million at Progress Energy, \$600 million at Duke Energy Progress, \$200 million at Duke Florida, \$60 million at Duke Indiana, \$450 million at Duke Ohio, \$100 million at Duke Kentucky, and \$350 million at Piedmont Natural Gas. We expect that most of this debt will be refinanced.

## Rating methodology and scorecard factors

Exhibit 10

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current FY 12/31/2018		Moody's 12-18 Month Forward View As of Date Published [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Regulatory Framework (25%)</b>				
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
<b>Factor 2 : Ability to Recover Costs and Earn Returns (25%)</b>				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
<b>Factor 3 : Diversification (10%)</b>				
a) Market Position	Aa	Aa	Aa	Aa
b) Generation and Fuel Diversity	A	A	A	A
<b>Factor 4 : Financial Strength (40%) [4]</b>				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.6x	A	4.6x - 5x	A
b) CFO pre-WC / Debt (3 Year Avg)	14.3%	Baa	13% - 16%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	9.8%	Baa	9% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	51.1%	Baa	50% - 54%	Baa
<b>Rating:</b>				
Grid-Indicated Rating Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	-1	-1	-1	-1
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2018

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

[4] Standard risk grid for financial strength

Source: Moody's Financial Metrics

## Appendix

Exhibit 11

### Cash Flow and Credit Metrics [1]

CF Metrics	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
<b>As Adjusted</b>					
<b>FFO</b>	<b>7,612</b>	<b>7,638</b>	<b>7,586</b>	<b>8,513</b>	<b>8,954</b>
+/- Other	225	(459)	(323)	(498)	(1,047)
<b>CFO Pre-WC</b>	<b>7,837</b>	<b>7,179</b>	<b>7,263</b>	<b>8,015</b>	<b>7,907</b>
+/- ΔWC	(870)	181	394	(740)	(138)
<b>CFO</b>	<b>6,967</b>	<b>7,360</b>	<b>7,657</b>	<b>7,275</b>	<b>7,769</b>
- Div	2,305	2,269	2,338	2,456	2,484
- Capex	5,759	7,278	8,697	8,687	9,959
<b>FCF</b>	<b>(1,097)</b>	<b>(2,187)</b>	<b>(3,378)</b>	<b>(3,868)</b>	<b>(4,674)</b>
<b>(CFO Pre-W/C) / Debt</b>	<b>19.0%</b>	<b>17.3%</b>	<b>14.6%</b>	<b>14.8%</b>	<b>13.7%</b>
<b>(CFO Pre-W/C - Dividends) / Debt</b>	<b>13.4%</b>	<b>11.8%</b>	<b>9.9%</b>	<b>10.3%</b>	<b>9.4%</b>
<b>FFO / Debt</b>	<b>18.4%</b>	<b>18.4%</b>	<b>15.2%</b>	<b>15.7%</b>	<b>15.5%</b>
<b>RCF / Debt</b>	<b>12.9%</b>	<b>12.9%</b>	<b>10.5%</b>	<b>11.2%</b>	<b>11.2%</b>
<b>Revenue</b>	<b>23,925</b>	<b>22,371</b>	<b>22,743</b>	<b>23,565</b>	<b>24,521</b>
<b>Cost of Good Sold</b>	<b>8,278</b>	<b>7,338</b>	<b>6,789</b>	<b>6,862</b>	<b>7,396</b>
<b>Interest Expense</b>	<b>1,674</b>	<b>1,681</b>	<b>1,977</b>	<b>2,172</b>	<b>2,330</b>
<b>Net Income</b>	<b>1,907</b>	<b>2,530</b>	<b>2,119</b>	<b>3,105</b>	<b>2,281</b>
<b>Total Assets</b>	<b>119,190</b>	<b>119,812</b>	<b>131,655</b>	<b>136,911</b>	<b>144,659</b>
<b>Total Liabilities</b>	<b>78,190</b>	<b>80,026</b>	<b>90,739</b>	<b>95,410</b>	<b>101,027</b>
<b>Total Equity</b>	<b>41,000</b>	<b>39,785</b>	<b>40,916</b>	<b>41,501</b>	<b>43,633</b>

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months  
Source: Moody's Financial Metrics

Exhibit 12

### Peer Comparison Table [1]

(in US millions)	Duke Energy Corporation			American Electric Power Company, Inc.			Southern Company (The)			Xcel Energy Inc.		
	Baa1 Stable			Baa1 Stable			Baa2 Stable			A3 Negative		
	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	LTM
	Dec-16	Dec-17	Dec-18	Dec-16	Dec-17	Dec-18	Dec-16	Dec-17	Dec-18	Dec-16	Dec-17	Sept-18
<b>Revenue</b>	22,743	23,565	24,521	16,380	15,425	16,196	19,896	23,031	23,495	11,107	11,404	11,453
<b>CFO Pre-W/C</b>	7,263	8,015	7,907	4,630	4,580	4,831	4,511	7,063	6,864	3,178	3,314	3,354
<b>Total Debt</b>	49,843	54,169	57,787	23,576	24,138	26,588	48,639	51,414	47,808	16,051	16,917	17,627
<b>CFO Pre-W/C / Debt</b>	14.6%	14.8%	13.7%	19.6%	19.0%	18.2%	9.3%	13.7%	14.4%	19.8%	19.6%	19.0%
<b>CFO Pre-W/C - Dividends / Debt</b>	9.9%	10.3%	9.4%	14.9%	14.0%	13.4%	6.2%	9.1%	14.2%	15.6%	15.3%	14.9%
<b>Debt / Capitalization</b>	47.5%	53.0%	52.9%	44.7%	49.2%	50.6%	53.8%	60.2%	56.2%	47.6%	52.8%	52.3%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR\* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade  
Source: Moody's Financial Metrics

## Ratings

Exhibit 13

Category	Moody's Rating
<b>DUKE ENERGY CORPORATION</b>	
Outlook	Stable
Issuer Rating	Baa1
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate	Baa2
Commercial Paper	P-2
<b>DUKE ENERGY CAROLINAS, LLC</b>	
Outlook	Stable
Issuer Rating	A1
First Mortgage Bonds	Aa2
Senior Secured Shelf	(P)Aa2
Senior Unsecured	A1
<b>DUKE ENERGY PROGRESS, LLC</b>	
Outlook	Stable
Issuer Rating	A2
First Mortgage Bonds	Aa3
Senior Secured	Aa3
Senior Unsecured Shelf	(P)A2
<b>PROGRESS ENERGY, INC.</b>	
Outlook	Stable
Senior Unsecured	Baa1
<b>DUKE ENERGY INDIANA, LLC.</b>	
Outlook	Stable
Issuer Rating	A2
First Mortgage Bonds	Aa3
Senior Secured	Aa3
Senior Unsecured	A2
<b>DUKE ENERGY OHIO, INC.</b>	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured Shelf	(P)A2
Senior Unsecured	Baa1
<b>PIEDMONT NATURAL GAS COMPANY, INC.</b>	
Outlook	Stable
Senior Unsecured	A3
Commercial Paper	P-2
<b>DUKE ENERGY KENTUCKY, INC.</b>	
Outlook	Stable
Senior Unsecured	Baa1

Source: Moody's Investors Service

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REPORT NUMBER 1163873



**CREDIT OPINION**  
 29 January 2019

Update

✓ Rate this Research

**RATINGS**

**Duke Energy Kentucky, Inc.**

Domicile	Kentucky, United States
Long Term Rating	Baa1
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date

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**Duke Energy Kentucky, Inc.**

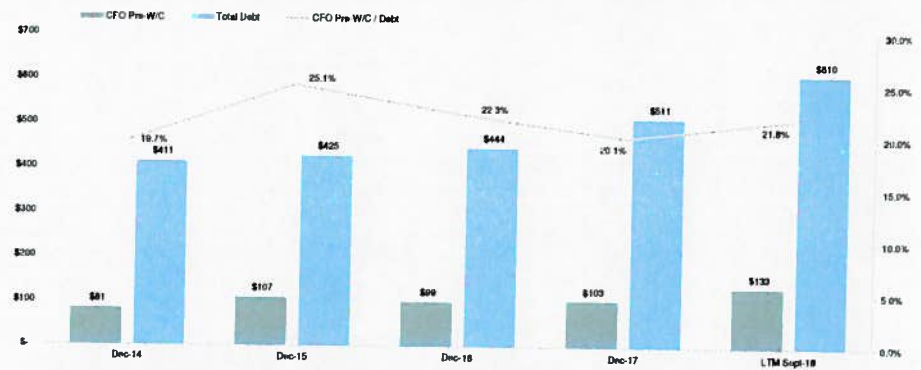
Update to credit analysis

**Summary**

Duke Energy Kentucky Inc.'s (Duke Kentucky) credit profile reflects a relatively supportive regulatory environment along with strong cash flow and financial coverage ratios. Our view also considers the utility's relatively small stand-alone size, and its position as a subsidiary of Baa1 rated Duke Energy Ohio, Inc. (Duke Ohio) within the Duke Energy Corporation (Duke Energy) family.

**Exhibit 1**

**Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt[1] (\$ MM)**



[1]CFO pre-WC is defined as cash flow from operations excluding changes in working capital  
 Source: Moody's Financial Metrics

**Credit strengths**

- » Strong financial metrics
- » Generally credit supportive regulation in Kentucky
- » Position within the Duke Energy corporate family

**Credit challenges**

- » Credit metrics are expected to weaken
- » Small size and position as wholly-owned subsidiary of Duke Ohio
- » Elevated carbon transition risk

## Rating outlook

Duke Kentucky's stable rating outlook considers the generally credit supportive regulatory environment in Kentucky, financial metrics that are appropriate for the rating level, and moderating capital expenditures.

### Factors that could lead to an upgrade

- » Supportive rate case outcomes that allow the continuation of strong credit metrics
- » Cash from operations excluding working capital changes to debt in the mid-20% range on a sustained basis
- » An upgrade of Duke Ohio from its current Baa1 rating level

### Factors that could lead to a downgrade

- » Cash flow from operations excluding working capital changes to debt falling below the high-teens
- » Higher capital expenditures resulting in a material increase in debt levels
- » A decline in the credit supportiveness of the regulatory environment in Kentucky

## Key indicators

Exhibit 2

### Duke Energy Kentucky, Inc. [1]

	Dec-14	Dec-15	Dec-16	Dec-17	LTM Sept-18
CFO Pre-W/C + Interest / Interest	5.7x	8.0x	7.2x	7.2x	7.8x
CFO Pre-W/C / Debt	19.7%	25.1%	22.3%	20.1%	21.8%
CFO Pre-W/C – Dividends / Debt	19.7%	12.1%	20.1%	20.1%	21.8%
Debt / Capitalization	37.6%	38.0%	37.3%	42.4%	43.7%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.  
 Source: Moody's Financial Metrics

## Profile

Duke Kentucky is a wholly owned subsidiary of Duke Ohio and its ultimate parent, Duke Energy Corporation. Duke Kentucky is a combination electric (approximately 75% of capital) and gas utility company that owns and operates approximately 1,100 megawatts (MWs) of regulated generation facilities and provides electricity to around 142,000 electric customers in northern Kentucky (primarily the areas surrounding Cincinnati). The company also provides natural gas services to approximately 100,000 customers in the same area and is regulated primarily by the Kentucky Public Service Commission (KPSC).

## Detailed credit considerations

### Cash flow coverage ratios remain solid

Duke Kentucky's cash flow and key financial metrics have been strong and appropriate for its credit profile for the last several years even though it operated under base rate freezes from 2012 through 2018. During this period, the utility's ratio of cash from operations excluding changes in working capital (CFO pre-WC) to debt generally remained above 20%, and in 2015 and 2016, moved above 22% before moderating slightly in 2017 and 2018. The 22% threshold is at the lower end of the "A" scoring range for this factor in our Regulated Electric and Gas Utilities rating methodology scorecard.

Through 2017, the strength in Duke Kentucky's metrics was partially due to continued extensions of bonus depreciation and the resulting increase in cash flow from deferred income taxes. Going forward, we expect the combination of increased leverage from environmental compliance spending, and the negative cash flow impacts of federal tax reform, will maintain downward pressure on

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financial ratios. However, due to recent rate activity, we anticipate cash flow metrics will remain supportive of Duke Kentucky's current credit quality; for example, we expect the utility's ratio of CFO pre-WC to debt will remain near 20%.

#### Generally credit supportive Kentucky regulation

We generally view the Kentucky regulatory environment as credit supportive with utilities in the state benefitting from timely cost recovery mechanisms, including recovery of fuel, purchased power, and environmental compliance costs. Duke Kentucky's most recent rate decision was generally consistent with that view, notwithstanding the fact that it was the company's first base rate case since 2006.

In April 2018, the Kentucky Public Service Commission (KPSC) approved an \$8.4 million increase (\$21 million when including the impact of approved riders) in electric base rates premised on a 9.725% return on equity (ROE) and a 49% equity layer. Importantly, the KPSC approved the expansion of the utility's environmental surcharge mechanism (ESM) to provide recovery of all of Duke Kentucky's environmental costs, including capital costs, costs related to ash and ash disposal, expenditures for environmental reagents and allowances, and additional operating and maintenance expenditures formally covered in base rates. Duke Kentucky estimates the incremental revenue from this rider will be approximately \$13 million on an annualized basis. The KPSC did however deny Duke Kentucky's request to implement riders for certain transmission costs and distribution capital investments. We view the use of riders and trackers as supportive of credit quality as they reduce regulatory lag and increase cash flow predictability.

The 2018 electric base rate decision followed a September 2017 request from Duke Kentucky for an increase of approximately \$48.6 million, which would have raised the average customer's bill by about 15%. The requested increase was based on a 10.3% return on equity (ROE) and a 49% equity layer. In February 2018, Duke Kentucky reduced its requested increase to \$30.1 million primarily to address the impact of the lower federal tax rate, including a return of the unprotected portion of excess deferred taxes over ten years. In addition to the implementation of riders, the case sought to begin recovery of investments the company made in its system over the prior 11 years, including the KPSC approved acquisition of the 31% of the 600 MW East Bend generating station it did not already own, ongoing investment in advanced metering infrastructure, and investments in utility scale solar generating facilities. These capital additions were largely approved, although adjustments to depreciation rates helped to limit the rate impact to customers. The deferral of approximately \$5 million of replacement power and planned outage expense further lessened the immediate impact to customers. As a result, according to the KPSC, the overall rate increase to customers was limited to approximately 3.2%.

On the gas side (approximately 25% of capital), in August 2018, Duke Kentucky filed for an approximate \$10.5 million (11.1% average) increase in its base rates. The request is net of savings associated with federal tax reform and is driven by system investments made since its last rate case in 2009. The company is also requesting a weather normalization adjustment mechanism, which would add stability to its cash flow, a credit positive. A hearing in the case is scheduled to begin in early February. In 2016, the KPSC approved a settlement agreement that provided rider recovery for Duke Kentucky's five year accelerated natural gas service line replacement program (ASRP) which is also supportive of credit quality.

#### Capital expenditures are moderating

Duke Kentucky's capital spending has been elevated in recent years, with a good portion focused on environmental compliance. In 2015, the EPA published rules on the regulation of coal ash or coal combustion residuals (CCR), which caused Duke Kentucky to record additional asset retirement obligations (ARO) for ash basin closure costs and to plan investments for improved ash handling. In 2017, the KPSC approved certificates of public convenience and necessity (CPCN) for the company's plans to convert the East Bend coal fired station to dry bottom ash (at a cost of approximately \$25 million) and to excavate and repurpose the existing East Bend ash pond (approximately \$94 million). Also in 2017, Duke Kentucky received approval for an advanced metering infrastructure project, estimated at \$49 million, that will take two years to complete. These investments were in addition to an uptick in distribution investment to improve reliability.

For the twelve months ending September 2018, Duke Kentucky's capital expenditures were approximately \$264 million versus \$180 million in 2017, around \$100 million in 2016 and \$50-\$60 million in prior years. This heightened capital program has contributed to an increased debt burden for the utility as total reported debt has grown from \$375 million at the end of 2015 to about \$550 million as of September 2018. Going forward, we expect annual investment will moderate somewhat, moving closer to around \$125 million per year, which will relieve some pressure on credit metrics.



#### Small size and position as wholly-owned subsidiary of Duke Ohio are credit considerations

Duke Kentucky is the smallest utility in the Duke Energy system (under 2% of earnings base) and is wholly owned by a neighboring Duke utility subsidiary, Duke Ohio (Baa1 stable) (about 5% of earnings base), which is a fully regulated electric transmission and distribution company that also operates a natural gas local distribution company. Although Duke Kentucky does not file financial statements with the SEC, it does publish quarterly and audited annual financial statements on its web site. The utility's small size, as well as its position as a wholly owned subsidiary of a Baa1 rated affiliate utility, are both considerations in assessing its credit profile.

#### Elevated carbon transition risk within the regulated utility sector

Duke Kentucky has elevated carbon transition risk within the US regulated utility sector as its primary generating asset is a coal plant. In 2017, we estimate that virtually all of the energy supplied by Duke Kentucky was generated by coal. This gives it a higher carbon transition risk profile than other vertically integrated utilities; however, local regulatory support for coal remains strong in Kentucky.

#### Liquidity analysis

Duke Kentucky maintains an adequate liquidity profile. For the twelve months ended September 30, 2018, the utility generated cash from operations (CFO) of about \$88 million, made about \$264 million in capital investments and made no distributions to its parent, resulting in negative free cash flow (FCF) of \$176 million. In 2017, Duke Kentucky generated approximately \$112 million of CFO, invested about \$180 million in capital expenditures and made no distributions to its parent, resulting in a negative FCF of approximately \$68 million. Going forward, given its ongoing but moderating capital needs, we anticipate the utility's cash flow shortfalls will be more modest.

Duke Kentucky's additional liquidity sources include its access to funding from the Duke parent company's commercial paper program through the Duke system money pool, and from direct borrowings from the money pool. As of September 30, 2018, the utility also had \$150 million of borrowing capacity under Duke's \$8 billion master credit facility that matures in March 2023, of which \$52 million was available. Duke has unilateral ability to increase Duke Kentucky's borrowing limit, up to \$175 million, which could provide additional liquidity, if needed.

Duke's master credit facility does not contain a material adverse change clause for new borrowings and has a single financial covenant requiring that Duke and its utility subsidiaries each maintain a consolidated debt to capitalization ratio of no more than 65% (except for Piedmont Natural Gas Company which has a maximum ratio of 70%). As of September 30, 2018, Duke reported that all of the borrowing entities were in compliance with this covenant. Duke Kentucky's next debt maturity is \$100 million of senior unsecured debt due in October 2019, which we expect it will refinance.

## Rating methodology and scorecard factors

Exhibit 3

### Rating Factors

Duke Energy Kentucky, Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]

Current  
LTM 9/30/2018

Moody's 12-18 Month Forward  
View  
As of Date Published [3]

	Measure	Score	Measure	Score
<b>Factor 1 : Regulatory Framework (25%)</b>				
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
<b>Factor 2 : Ability to Recover Costs and Earn Returns (25%)</b>				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
<b>Factor 3 : Diversification (10%)</b>				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	B	B	B	B
<b>Factor 4 : Financial Strength (40%)</b>				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	7.8x	Aa	5.7x - 6.1x	A
b) CFO pre-WC / Debt (3 Year Avg)	23.3%	A	19% - 23%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	21.3%	A	16% - 20%	A
d) Debt / Capitalization (3 Year Avg)	39.1%	A	42% - 46%	A
<b>Rating:</b>				
Grid-Indicated Rating Before Notching Adjustment		A3		Baa1
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		A3		Baa1
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 9/30/2018 (LTM)

[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.  
 Source: Moody's Financial Metrics

## Appendix

Exhibit 4

### Cash Flow and Credit Metrics [1]

CF Metrics	Dec-14	Dec-15	Dec-16	Dec-17	LTM Sept-18
<b>As Adjusted</b>					
<b>FFO</b>	<b>98</b>	<b>116</b>	<b>107</b>	<b>118</b>	<b>137</b>
+/- Other	(17)	(10)	(8)	(15)	(3)
<b>CFO Pre-WC</b>	<b>81</b>	<b>107</b>	<b>99</b>	<b>103</b>	<b>133</b>
+/- ΔWC	(40)	14	12	18	(43)
<b>CFO</b>	<b>41</b>	<b>121</b>	<b>112</b>	<b>121</b>	<b>90</b>
- Div	-	55	10	-	-
- Capex	58	75	108	188	270
<b>FCF</b>	<b>(16)</b>	<b>(9)</b>	<b>(7)</b>	<b>(67)</b>	<b>(180)</b>
<b>(CFO Pre-W/C) / Debt</b>	<b>19.7%</b>	<b>25.1%</b>	<b>22.3%</b>	<b>20.1%</b>	<b>21.8%</b>
<b>(CFO Pre-W/C - Dividends) / Debt</b>	<b>19.7%</b>	<b>12.1%</b>	<b>20.1%</b>	<b>20.1%</b>	<b>21.8%</b>
<b>FFO / Debt</b>	<b>23.9%</b>	<b>27.4%</b>	<b>24.0%</b>	<b>23.0%</b>	<b>22.4%</b>
<b>RCF / Debt</b>	<b>23.9%</b>	<b>14.4%</b>	<b>21.7%</b>	<b>23.0%</b>	<b>22.4%</b>
<b>Revenue</b>	<b>493</b>	<b>462</b>	<b>436</b>	<b>431</b>	<b>468</b>
<b>Cost of Good Sold</b>	<b>230</b>	<b>183</b>	<b>164</b>	<b>155</b>	<b>176</b>
<b>Interest Expense</b>	<b>17</b>	<b>15</b>	<b>16</b>	<b>16</b>	<b>20</b>
<b>Net Income</b>	<b>35</b>	<b>44</b>	<b>42</b>	<b>59</b>	<b>74</b>
<b>Total Assets</b>	<b>1,261</b>	<b>1,385</b>	<b>1,423</b>	<b>1,577</b>	<b>1,770</b>
<b>Total Liabilities</b>	<b>850</b>	<b>982</b>	<b>987</b>	<b>1,068</b>	<b>1,183</b>
<b>Total Equity</b>	<b>411</b>	<b>403</b>	<b>435</b>	<b>509</b>	<b>587</b>

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months  
Source: Moody's Financial Metrics

Exhibit 5

### Peer Comparison Table [1]

(in US millions)	Duke Energy Kentucky, Inc.			Kentucky Power Company			Louisville Gas & Electric Company			Kentucky Utilities Co.		
	Baa1 Stable			Baa2 /negative			A3 Stable			A3 Stable		
	FYE Dec-15	FYE Dec-17	LTM Sept-18	FYE Dec-16	FYE Dec-17	LTM Sept-18	FYE Dec-16	FYE Dec-17	LTM Sept-18	FYE Dec-15	FYE Dec-17	LTM Sept-18
<b>Revenue</b>	<b>436</b>	<b>431</b>	<b>468</b>	<b>655</b>	<b>643</b>	<b>654</b>	<b>1,430</b>	<b>1,453</b>	<b>1,491</b>	<b>1,749</b>	<b>1,744</b>	<b>1,773</b>
<b>CFO Pre-W/C</b>	<b>99</b>	<b>103</b>	<b>133</b>	<b>110</b>	<b>150</b>	<b>122</b>	<b>518</b>	<b>547</b>	<b>461</b>	<b>616</b>	<b>659</b>	<b>606</b>
<b>Total Debt</b>	<b>444</b>	<b>511</b>	<b>610</b>	<b>936</b>	<b>934</b>	<b>930</b>	<b>1,873</b>	<b>1,984</b>	<b>2,060</b>	<b>2,411</b>	<b>2,440</b>	<b>2,501</b>
<b>CFO Pre-W/C / Debt</b>	<b>22.3%</b>	<b>20.1%</b>	<b>21.8%</b>	<b>11.7%</b>	<b>16.1%</b>	<b>13.1%</b>	<b>27.6%</b>	<b>27.6%</b>	<b>22.4%</b>	<b>25.6%</b>	<b>27.0%</b>	<b>24.2%</b>
<b>CFO Pre-W/C - Dividends / Debt</b>	<b>20.1%</b>	<b>20.1%</b>	<b>21.8%</b>	<b>7.0%</b>	<b>12.3%</b>	<b>12.2%</b>	<b>20.8%</b>	<b>17.9%</b>	<b>14.9%</b>	<b>15.3%</b>	<b>17.7%</b>	<b>14.2%</b>
<b>Debt / Capitalization</b>	<b>37.3%</b>	<b>42.4%</b>	<b>43.7%</b>	<b>41.3%</b>	<b>46.6%</b>	<b>45.2%</b>	<b>35.3%</b>	<b>39.1%</b>	<b>38.9%</b>	<b>35.0%</b>	<b>37.7%</b>	<b>37.7%</b>

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End LTM = Last Twelve Months RUR\* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade  
Source: Moody's Financial Metrics

## Ratings

Exhibit 6

Category	Moody's Rating
<b>DUKE ENERGY KENTUCKY, INC.</b>	
Outlook	Stable
Senior Unsecured	Baa1
<b>ULT PARENT: DUKE ENERGY CORPORATION</b>	
Outlook	Stable
Issuer Rating	Baa1
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Jr Subordinate	Baa2
Commercial Paper	P-2
<b>PARENT: DUKE ENERGY OHIO, INC.</b>	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured Shelf	(P)A2
Senior Unsecured	Baa1

Source: Moody's Investors Service

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APPENDIX B

THE RELATIONSHIP BETWEEN RISK AND RETURN

This appendix is divided into three segments. In the first segment, I describe the Capital Asset Pricing Model (CAPM) and address the implementation problems associated with each component of the CAPM. In the second segment, I demonstrate that the traditional Sharpe-Lintner version of the CAPM produces biased estimates of equity costs, and that the relationship between return and risk should be estimated empirically through the empirical form of the CAPM (ECAPM). In the third section, I empirically derive a risk-return relationship for illustrative purposes, and propose a workable approximation to the observed risk-return relationship.

I. THE CAPM AND ITS COMPONENTS

A brief description of the CAPM is necessary at the outset. The conceptual underpinnings of the CAPM, a description of the underlying assumptions, and the formal derivation of the CAPM can be found in Morin, R.A. Utilities Cost of Capital, Public Utilities Reports Inc., Arlington, Va., 1984, Ch. 10.

The fundamental idea underlying the CAPM is that risk-averse investors demand higher returns for assuming additional risk, and higher-risk securities are priced to yield higher expected returns than lower-risk securities. The CAPM quantifies the additional return required for bearing incremental risk, and provides a formal risk-return relationship anchored on the basic idea that

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only market risk matters, as measured by beta. Securities are priced such that:

$$\begin{aligned} \text{EXPECTED RETURN} &= \text{RISK-FREE RATE} + \text{RISK PREMIUM} \\ &= \text{RISK-FREE RATE} + \text{RELEVANT RISK} \times \text{MARKET} \\ &\qquad\qquad\qquad \text{PRICE OF RISK} \end{aligned}$$

For a diversified investor, the only relevant risk is that which cannot be eliminated by diversification, that is, market risk or BETA. Therefore,

$$\begin{aligned} \text{EXPECTED RETURN} &= \text{RISK-FREE RATE} + \text{BETA} \times \text{MARKET PRICE} \\ &\qquad\qquad\qquad \text{OF RISK} \\ K &= R_f + \text{BETA}(R_M - R_f) \qquad (1) \end{aligned}$$

Equation (1) is the seminal CAPM expression. The CAPM asserts that an investor expects to earn a return,  $K$ , that could be gained on a riskless investment,  $R_f$ , plus a risk premium for assuming risk, proportional to the security's market risk, BETA, and the market price of risk,  $R_M - R_f$ .

Despite the conceptual appeal and mechanistic simplicity of the model, actual implementation of the model to estimate a fair return on equity presents practical difficulties. From the start, the CAPM model and its variants are expectational models (as with most valuation models in finance), while only historical data are available to match the



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theoretical input variables: expected risk-free return, expected beta, and expected market return. To stress this point, the following equation restates the CAPM formula with expectational operators attached to each input variable:

$$E(K) = E(R_f) + E(B) \times [E(R_M) - E(R_f)] \quad (2)$$

where  $E(K)$  = expected return, or cost of capital

$E(R_f)$  = expected risk-free rate

$E(B)$  = expected beta

$E(R_M)$  = expected market return

None of the input variable exists as separate identifiable entities. It is thus necessary in practice to employ proxies, obtaining different results with each set of proxy variables.

#### I. (1) Risk-Free Rate

The best surrogate for the risk-free rate is the yield on default-free long-term Treasury bonds. The use of one-year Treasury bills as proxy for the risk-free rate in implementing the CAPM is questionable. Theoretically, the yield on short-term Treasury Bills is virtually riskless, devoid of default risk and subject to a negligible amount of interest rate risk. But the T-Bill rate fluctuates widely, leading to volatile and unreliable equity return estimates. Moreover, short-term Treasury Bills typically do not match the

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equity investor's planning horizon. Equity investors generally have an investment horizon far in excess of one year. More importantly, short-term Treasury Bills yields reflect the impact of factors different from those influencing long-term securities such as common stock. The premium for expected inflation impounded into short-term Treasury Bills is likely to be far different than the inflationary premium impounded into long-term securities yields. On grounds of consistency alone, the yields on default-free long-term Treasury bonds match more closely with common stock returns and are more appropriate. In my CAPM analyses, I use the current yield on long-term Treasury bonds as an estimate of the risk-free rate. Alternatively, an average of the yields on Treasury bonds futures contracts extending out 2 years in maturity could be used.

I.(2) BETA ESTIMATE

The true beta of a security can never be observed, in much the same way that the true expected growth rate in the DCF model can never be observed. Historically estimated betas serve only as proxies for the true beta.

Absolute estimates of beta may vary when different computational methods are used. The time period used, its duration, the choice of market index, and whether annual, monthly, or weekly return figures are used influence the final result. To enhance statistical significance, beta should be calculated with

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return data going as far back as possible. But the company's risk may have changed if the historical period is too long. Weighting the data for this tendency is one possible remedy, but this presupposes some knowledge on how risk changes. A frequent compromise is to use a five-year period with either weekly or monthly returns. Value Line betas are computed based on weekly returns over a five-year period using the New York Stock Exchange Stock Index; Merrill Lynch betas are computed with monthly returns over a five-year period using the Standard & Poor's 500 Industrials Index.

By construction, backward-looking betas are sluggish in detecting fundamental changes in a company's risk, even when estimated over sufficiently long periods using weekly or monthly returns. For example, if a utility suddenly increases its business risk or its debt to equity ratio, one would expect an increase in beta. However, if 60 months of return data are used to estimate beta, only one of the 60 data points reflects the new information, one month after the utility increased its risk level. Thus, the change in risk only has a minor effect on the historical beta. Even one year later, only 12 of the 60 return points reflect the event. Therefore, care must be taken when using historical betas for a company which has experienced a recent structural shift in fundamentals.

#### I. (3) MARKET RISK PREMIUM

The last required input to the CAPM is the expected risk premium on the

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market,  $R_m - R_f$ . Two methods of estimating this component are possible. The first method is to estimate the market return  $R_m$  directly and then subtract  $R_f$ ; the second is to estimate directly the market risk premium,  $R_m - R_f$ , as a whole. To estimate the latter, either historical risk premium results or expectational results can be used. In the case of historical risk premium results, it is assumed that investors anticipate about the same risk premium in the future as in the past.

The direct estimation of  $R_m$  can be achieved by applying the DCF methodology to a representative market index, such as the Standard & Poor's 500, Value Line Composite, or the New York Stock Exchange Index. For reasons of consistency, the market index employed should be the same as the market index used in deriving estimates of beta. A standard DCF with a 10-day average index value, an expectational dividend yield on the index adjusted for quarterly timing, and an aggregate composite growth estimate based on analysts' forecast, such as the composite 5-year earnings growth forecast in IBES, or Zacks' ICARUS data bases, could accomplish this.

I. (4) HISTORICAL MARKET RISK PREMIUM

The use of historical returns actually earned from investments in common equities and bonds in order to implement the CAPM can be expressed as follows:

$$K_e = K_d + \text{historical bond-equity spread}$$

where  $K_e$  = cost of common equity

$K_d$  = incremental cost of debt

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Historical return data for common equities and bonds are compiled, and the historical mean return differential between stocks and bonds serves as the measure of risk premium. The historical return data typically originates from the landmark Ibbotson-Sinquefield [Stocks, Bonds, Bills, and Inflation: The Past and the Future, Charlottesville, Va: Financial Analysts Research Foundation, 1982, Monograph #15] study, which compared realized holding period annual returns on equities, government long-term and short-term securities, corporate bonds, and inflation from 1926 to 1982. Annual updates of the return results are published by Ibbotson-Sinquefield. Application of the method proceeds directly from the historical results. It is imperative that if historical risk premiums are to be relied upon, they be estimated over very long time periods. Only over long periods do investor expectations and realizations converge, or otherwise investors would not commit investment capital. Investor expectations are eventually revised to match historical realizations, as market prices adjust to bring anticipated and actual investment results into equilibrium.

One further issue relating to the use of realized returns is whether to use the arithmetic mean or the geometric mean return. Only arithmetic means are correct for forecasting purposes and for estimating the cost of capital. This is formally shown by Brealey & Myers ["Principles of Corporate Finance," Instructors' Manual, Appendix C, McGraw Hill 1984] and in Ibbotson Sinquefield, op. cit.

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According to the 1987 edition of the Ibbotson-Sinquefeld report, the average return on stocks in the 1926-1986 period was 12.1%, while the return on long-term government bonds was 4.7% over the same period, implying a risk premium of 7.4% for the average stock. The latter estimate can be used as an alternative to the direct expectational approach previously described.

II. THE EMPIRICAL CAPM

II. (1) EMPIRICAL VALIDATION OF THE SHARPE-LINTNER CAPM

There have been countless empirical tests of the Sharpe-Lintner CAPM to determine to what extent security returns and betas are related in the manner predicted by the Sharpe-Lintner CAPM. The results of these exhaustive tests, including those reported in the next section, support the idea that beta is related to security returns, that the risk-return tradeoff is positive, and that the relationship is linear. The contradictory finding is that the empirical risk-return relationship is not as steeply sloped as the predicted relationship. That is, low-beta securities earn returns somewhat higher than the CAPM would predict, and high-beta securities earn less than predicted. The slope is less than predicted by the CAPM, and the intercept term is greater than the risk-free rate. This is graphically depicted in Figure 1. This result is particularly crucial for public utilities whose betas are less than one. An estimate of cost of capital based on the Sharpe-Lintner CAPM underestimates the return required from such securities.

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The empirical evidence also demonstrates that the return-beta relationship is unstable over short periods, and differs significantly from the long-run relationship. This evidence underscores the potential for error in cost of capital estimates which apply the CAPM using historical data over short time periods.

In short, the currently available empirical evidence indicates that the simple version of the CAPM does not provide a complete description of the process determining security returns. Reasons advanced for the inadequacies of the Sharpe-Lintner CAPM include the following:

1. Due to intertemporal effects not considered in the single-period CAPM, other sources of uncertainty besides market risk are significant in portfolio choice.<sup>1</sup>
2. Constraints on investor borrowing exist contrary to the assumption of the CAPM.

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<sup>1</sup> For a summary of intertemporal CAPM theory and supporting evidence, see Morin, R. A. "Multiperiod Asset Pricing Theory: An empirical Test." Financial Management Association Meeting Oct. 1987, Center for the Study of Regulated Industry, Georgia State University, Working Paper 87-3.

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3. The CAPM excludes other important variables which are important in determining security returns. Factors other than beta influence investor behavior, such as taxes and size.
4. The market index typically used in the empirical tests exclude important classes of securities, such as bonds, mortgages, and business investment.

## II. (2) CAPM EXTENSIONS

Expanded CAPM models have been proposed which relax some of the more restrictive assumptions underlying the Sharpe-Lintner CAPM, and which enrich its conceptual validity. These expanded CAPM models typically produce a risk-return relationship that is flatter than the Sharpe-Lintner CAPM's prediction, consistent with the empirical findings.

The thrust of these expanded CAPM models is that beta is insufficient, and that other systematic risk factors affect security returns. The effects of relaxing the assumptions and introducing other independent variables should be quantified and used in estimating the cost of equity capital. The impact of the supplementary variables can be expressed as an additive element to the



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standard CAPM equation. Letting "a" stand for these other effects, the CAPM equation can be generalized as follows:

$$K = R_f + a + \text{BETA} (R_M - R_f) \quad (3)$$

To capture the variables' impact on the slope of the relationship, a coefficient 'b' is substituted for the market risk premium. The generalized CAPM equation becomes:

$$K = R_f + a + b \times \text{BETA} \quad (4)$$

The constants 'a' and 'b' capture market-wide effects which influence security returns, and which must be estimated by statistical techniques.

Empirical studies in finance have demonstrated that several factors besides beta influence security returns: Major factors include the hedging properties of assets against unforeseen changes in opportunities, constraints on investor borrowing, dividend yield as a proxy for tax effects, and size.

## II. (3) ZERO-BETA VERSION OF THE CAPM

One of numerous versions of the CAPM developed by researchers which gives rise to a specific formulation of Equation (4) is the so-called zero-beta, or two-factor, CAPM. This version of the CAPM accounts for the effect of margin

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constraints on investor borrowing and for the existence of investment assets other than publicly-traded common stocks in a market where borrowing and lending rates are divergent. The model has the following form:

$$K = R_z + \text{BETA} (R_M - R_z) \quad (5)$$

The model, christened the zero-beta model, is analogous to the standard CAPM, but with the return on a minimum risk portfolio which is unrelated to market returns,  $R_z$ , replacing the risk-free rate,  $R_f$ . The model has been empirically tested by several researchers who found a flatter than predicted CAPM consistent with other researchers' findings. In view of the strong empirical support for the zero-beta version of the CAPM, the appellation Empirical CAPM is often attributed to this model.

Although the zero-beta CAPM cannot be literally employed in cost of capital projections, since the zero-beta portfolio is a statistical construct, attempts to estimate the model are formally equivalent to empirically estimating the coefficients 'a' and 'b' in Equation 4.

## II. (4) APPROXIMATIONS TO THE EMPIRICAL CAPM

Approximations to the empirical CAPM have been proposed by assuming that the risk premium on a zero-beta asset is equal to the some fraction of the risk-free rate.

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The results of the empirical tests reported below suggest that the following equation provides a workable approximation to the cost of equity capital:

$$K = R_f + 0.3 (R_M - R_f) + 0.7 \text{ BETA} (R_M - R_f) \quad (6)$$

This approximation rests on the results of an empirical study described in the next section, which statistically relates historical realized returns on a large sample of common stocks to their historical betas. Based on a careful econometric study relating historical portfolio returns to their corresponding historical betas over a long historical period commencing in 1966, the approximation contained in Equation #6 fitted the observed return-risk relationship accurately, is consistent with the results of well-known empirical studies of the CAPM.

Comparing the cost of capital estimate from the standard CAPM of Equation (1) with the estimate from the above empirical approximation, the bias from using the Sharpe-Lintner CAPM can be quantified by subtracting Equation (1) from (6):

$$\text{BIAS} = 0.3 (R_M - R_f)(1 - \text{BETA}) \quad (7)$$

The bias is thus positive for a public utility with a beta less than 1. For example, with a market return of 15%, a risk-free rate of 9%, and a beta of 0.80, the cost of equity estimate from the Sharpe-Lintner CAPM is underestimated by 36 basis points (0.36%).

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II. (5) MULTIPLE-FACTOR CAPM APPROACH

An asset's hedging properties, tax status, and size are also important determinants of return. The empirical evidence on an asset's degree of protection against unforeseen changes in opportunities is discussed in Morin (1987), op. cit. The empirical evidence on the influence of dividend yields on investors' return requirements is surveyed in Brealey & Myers, Principles of Corporate Finance, McGraw Hill (1988), p. 372. One plausible reason for the dividend yield effect stems from the heavier taxation on dividend income relative to capital gains, which are not taxed until realized. This causes investors to require higher pre-tax returns in order to equalize the after-tax returns provided by high-yielding stocks with those of low-yielding stocks. This effect may have been palliated by recent changes in tax laws. Empirical studies have also found that returns are also affected by size, over and above the effect of beta. For example, the Ibbotson Associates, op. cit., 1987 historical return studies demonstrate that small firms have outperformed large capitalization stocks by about 6% in the 1926-1986 period. Franks, Broyles, and Carleton, Corporate Finance Concepts and Applications, Kent, 1985, p. 329, provide a brief survey of the literature on the size effect.

Equation 4, which can be estimated statistically from market data, offers a pragmatic solution to incorporate these various effects, which are telescoped into the two constants 'a' and 'b'.

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### III. CAPM EMPIRICAL TEST: DATA, METHODOLOGY, RESULTS

To obtain CAPM estimates of equity costs, I examined the statistical relationship between averaged historical market return and beta for a large sample of securities, using multiple regression techniques. The influence of dividend yield as proxy for tax effects on return was also examined.

#### III. (1) DATA AND VARIABLES

Data requirements include stock returns, market returns, risk-free interest rates and dividend yield data. The return and dividend yield data are extracted from the CRISP (Center for Research in Security Prices) tapes for the period 1/1960 - 12/1984. Only companies for which consecutive data for at least 60 months prior to the first month of each year and which were available in the Compustat tape were eligible to be in the sample for any given year.

For each company, return is measured as the change in total value over a given month, including dividends and capital gains. Dividend yield is the ratio of cash dividends paid in a given month and the month-end stock price. Monthly returns and dividend yields are summed across months to produce annual returns and dividend yields.

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The market return in any given year is computed as the equally weighted average return of all securities listed on the NYSE in that year. The yearly betas for all securities in the sample with at least 60 consecutive months of data prior to that year are estimated from the traditional market model:

$$R_{i,t} - R_{f,t} = a + b_i(R_{M,t} - R_{f,t}) + e_{i,t} \quad (8)$$

where  $R_{i,t}$  = realized return on security 'i' in month t

$R_{M,t}$  = realized return on the market index in month t

$R_{f,t}$  = risk-free rate in month 't'

$e_{i,t}$  = error term with zero mean and finite variance

### III. (2) STATISTICAL METHODOLOGY

Securities are first grouped into portfolios based on beta, and dividend yield. The returns, betas, and dividend yields of the portfolios are then computed. The reasons for grouping securities into portfolios are: 1) to improve the statistical efficiency of the empirical test, given that the variance on a portfolio's return is far less than that of an individual security, 2) to attenuate measurement errors through diversification, 3) to produce unbiased estimates of return, beta, and dividend yield for a portfolio by giving equal weight to each security, and 4) to maximize the dispersion of beta, and dividend yield so as to facilitate detection of their relative effects.

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The specifics of the methodology are as follows. For each year, Equation #8 is estimated for individual firms, using monthly returns over the previous 5 years. The dividend yield of the security is obtained as of the last year of the 5-year estimation period. Based on the ranked values of beta and dividend yield, the firms in the sample are cross-classified into 35 portfolios, 27 of which are made up of industrials and the remaining 8 of regulated companies. The securities are first ranked according to their estimated beta from minimum to maximum, and divided into beta groups. The securities in each beta group are ranked according to their estimated dividend yields from minimum to maximum, and divided further into sub-groups. Thirty-five portfolios of firms are thus obtained. This procedure is repeated each year based on the most recent beta and dividend yield. To produce efficient statistical estimators and to minimize the variance of portfolio return, portfolios are constructed with an equal number of securities each year. The return, beta and dividend yield of each portfolio are computed by averaging individual security values.

### III. 3. EMPIRICAL RESULTS

Exhibits RAMAPP-1 and RAMAPP-2 presents various summary statistics regarding the 35 portfolios, including regression statistics on the market model (Equation #8), average yields, and returns. The estimated value of the intercept 'a' and its 't' statistic appear in columns 2 and 3 for each portfolio. The betas and their corresponding 't' statistic appear in columns 4 and 5. The coefficients of determination ( $R^2$ ) are in column 6. Both the

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intercept, 'a', and the slope statistic ('b' or beta) are estimated by regressing the monthly excess return of the equally weighted market portfolio on the corresponding monthly excess return of the equally weighted market portfolio. The average dividend yield, 'd', shown in column 7 is computed by summing the annual yield of each portfolio and averaging over the entire period. The average returns on each portfolio are in column 8.

The portfolio data for industrials and regulated firms are pooled in Exhibit RAMAPP-3, yielding 35 portfolios. The returns, betas, and dividend yields are shown in the various columns for each portfolio. To test for the impact of beta on returns, cross-sectional regression is employed, using the column data of Exhibit RAMAPP-3. The following regression is run:

$$\text{RETURN} = a_0 + a_1 \text{BETA}$$

The results are reported on the left-hand side of Exhibit RAMAPP-4, and shown graphically on Figure 2. The fitted relationship between return and beta is given by:

$$\text{RETURN} = .0829 + .0520 \text{BETA} \quad (10)$$

$$(t=4.12) \quad (t=4.06)$$

The  $R^2$  of the regression is 0.33. Beta exerts a positive and significant



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influence on return. Were the traditional Sharpe-Lintner CAPM correct, the intercept in the above relationship should equal the average risk-free rate during the 1966-1984 period, which was about .06, and the slope coefficient should equal  $(R_M - R_f)$  or about .06 also. The actual results, however, point to a flatter relationship than predicted by the pure CAPM, as evidenced by the higher intercept and flatter slope coefficients than predicted. This finding is consistent with expanded versions of the CAPM, including the post-tax version of the CAPM, and is typical of a myriad of research findings in the finance literature.

As Figure 3 demonstrates, the observed relationship between return and beta can be closely approximated by the following equation:

$$K + R_f + 0.3 (R_M - R_f) + 0.7 \text{ BETA } (R_M - R_f) \quad (11)$$

This was derived by systematically varying the constant "x" in the following equation from 0 to 1 in steps of 0.1 and choosing that value of 'x' which minimized the mean square error between the observed relationship,

RETURN = .0829 + .0520 BETA, and the empirical approximation CAPM formula.

The value of x which best explained the observed relationship was x = 0.3.

$$K = R_f + x (R_M - R_f) + (1-x) \text{ BETA } (R_M - R_f) \quad (12)$$

In Figure 3, the fitted relationship, the traditional CAPM, and the

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empirical approximation of Equation #4 are shown. The approximation almost coincides closely with the observed relationship.

To estimate an asset's cost of equity with the empirical approximation of the CAPM, the current input data for the asset is substituted in the above equation. For example, using a beta of 0.80 a risk-free rate of 9.1% which is the yield on long-term Treasury bonds as of November 1988, a market return of 14.7%, which is the DCF summation of the dividend yield of 3.2% on the Value Line stock index and the consensus expected long-term growth of 11.5% on Zacks' stock universe, the return predicted by the above equation is 13.92%, without a flotation cost adjustment:

$$K = .095 + 0.3 (.074) + 0.7 (.074)(0.80) = .1586 \quad (13)$$

To test for the joint impact of beta and dividend yield on returns, cross-sectional regression is again employed, using the column data of Exhibit RAMAPPB-4. The following regression is estimated:

$$\text{RETURN} = a_0 + a_1 \text{BETA} + a_2 \text{DIV. YLD.} \quad (14)$$

The results are reported on the right-hand side of Exhibit RAMAPPB-4. The fitted relationship is given by:

$$\text{RETURN} = 0.0423 + .0787\text{BETA} + 0.3981\text{DIV. YLD.} \quad (15)$$

(t=2.11)      (t=4.05)      (t=1.78)

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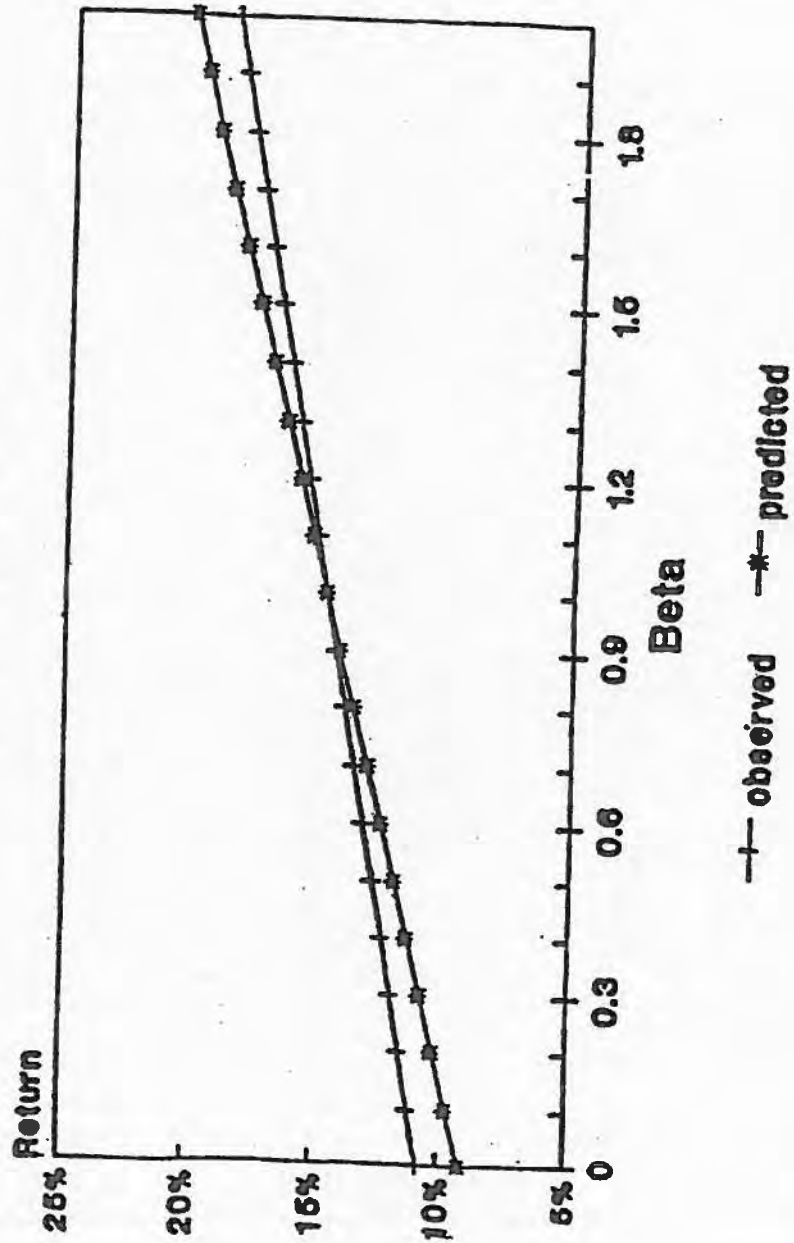
Both beta and dividend yield exert a positive influence on return, although the influence of dividend yield is marginal. This finding is also consistent with the post-tax version of the CAPM. The positive impact of dividend yield on return is likely to have decreased slightly since the tax reform act of 1986, which has diminished, although not eliminated, the tax advantage of capital gains relative to dividend income.

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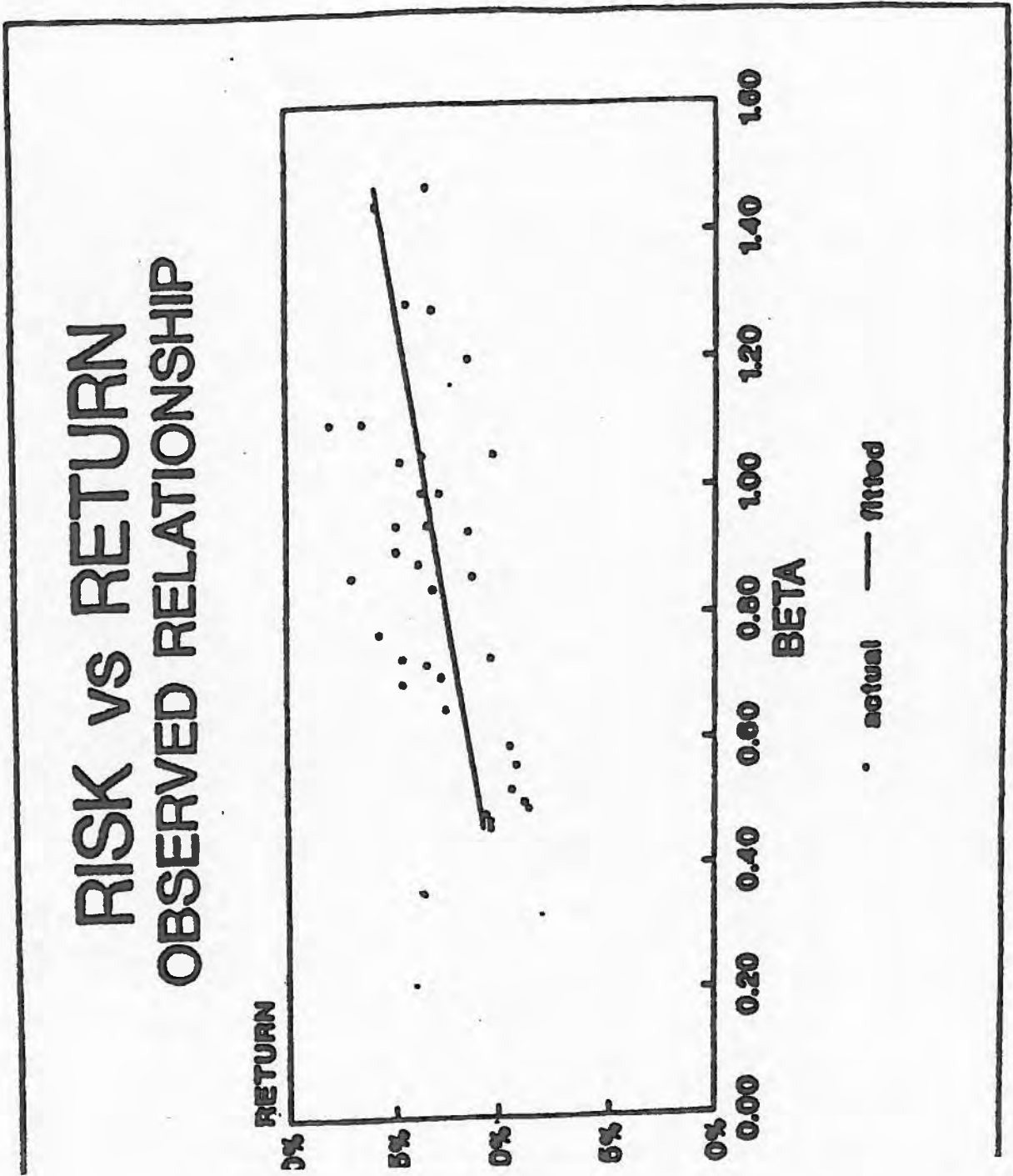
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Figure 1.

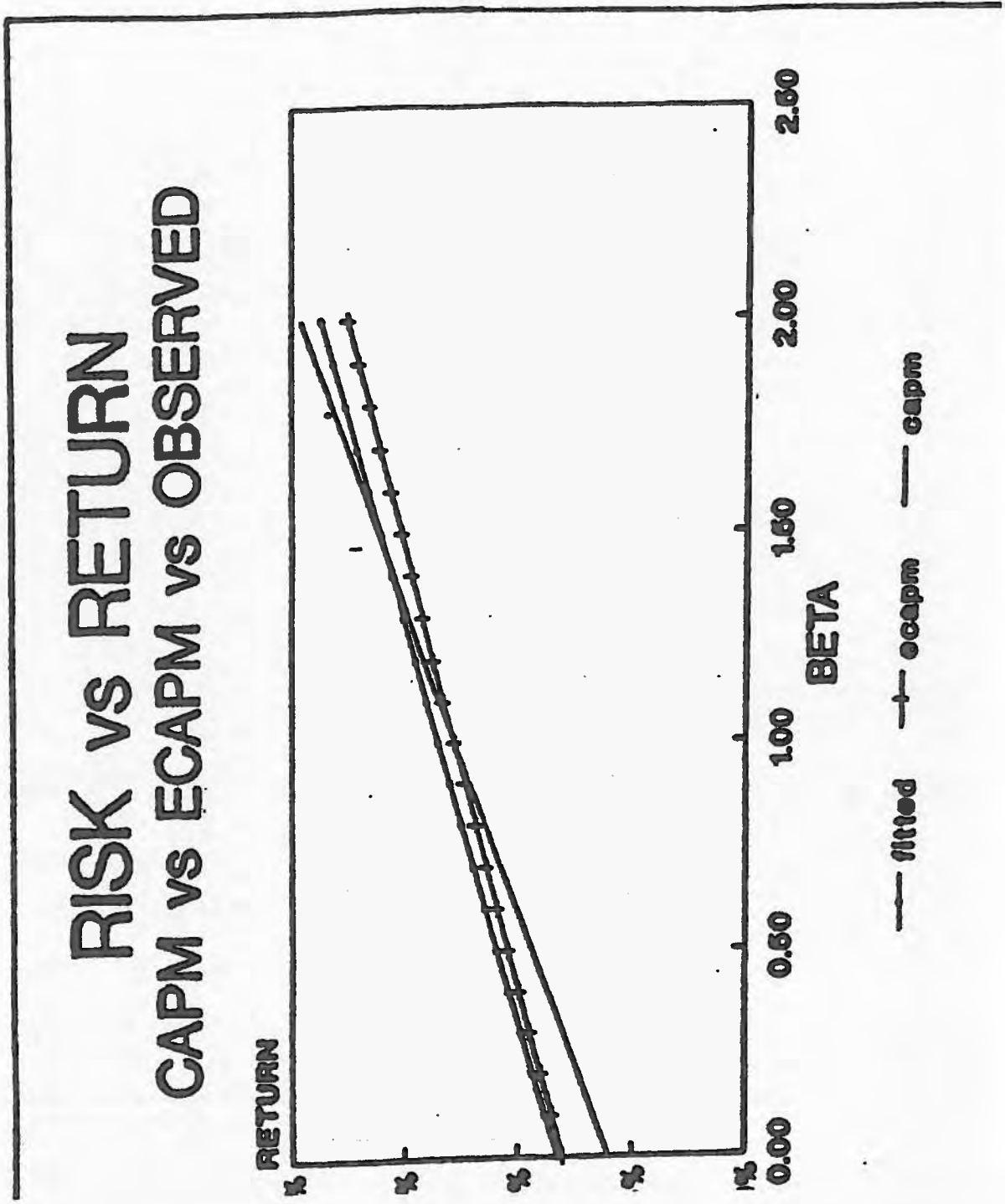
# EMPIRICAL RELATIONSHIP vs CAPM Risk vs Return



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Figure 2



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Figure 3



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Exhibit RAMAPP-1

**STATISTICS: 27 UNREGULATED PORTFOLIOS 1966-84**

PORTFOLIO (1)	a (2)	t(a) (3)	b (4)	t(b) (5)	R-SQUARED (6)	DIV YLD (7)	RETURN (8)
1	0.0010	0.43	0.65	17.32	0.57	0.021	12.5
2	-0.0011	-0.52	0.73	20.38	0.65	0.021	10.2
3	0.0006	0.34	0.84	26.71	0.76	0.021	13.1
4	0.0010	0.76	0.70	32.55	0.82	0.042	12.7
5	0.0120	0.88	0.72	29.95	0.80	0.042	13.4
6	-0.0013	-0.90	0.86	35.45	0.85	0.042	11.2
7	0.0026	2.23	0.69	33.90	0.84	0.064	14.6
8	0.0030	2.33	0.77	35.42	0.85	0.062	15.7
9	0.0024	1.84	0.73	32.98	0.83	0.065	14.6
10	0.0001	0.05	0.94	30.65	0.81	0.018	13.4
11	-0.0007	-0.46	0.99	38.02	0.86	0.019	12.8
12	0.0000	0.00	1.05	35.48	0.85	0.014	13.6
13	0.0016	1.24	0.90	40.99	0.88	0.040	14.9
14	-0.0015	-1.03	0.93	38.68	0.87	0.041	11.4
15	0.0003	0.26	0.99	43.97	0.90	0.040	13.7
16	0.0035	2.90	0.86	41.36	0.88	0.060	17.0
17	0.0008	0.59	0.88	40.25	0.88	0.060	13.8
18	0.0014	1.03	0.94	41.84	0.89	0.061	14.9
19	-0.0009	-0.42	1.29	36.55	0.86	0.003	14.4
20	-0.0009	-0.44	1.44	39.77	0.88	0.030	15.9
21	-0.0026	-1.12	1.47	36.66	0.86	0.020	13.4
22	-0.0031	-2.11	1.05	41.67	0.88	0.025	10.2
23	-0.0028	-1.91	1.20	48.40	0.91	0.025	11.4
24	-0.0020	-1.18	1.28	44.03	0.90	0.025	13.1
25	0.0028	2.04	1.10	46.71	0.91	0.049	18.0
26	0.0006	0.48	1.04	46.11	0.90	0.047	14.7
27	0.0019	1.48	1.10	50.39	0.92	0.048	16.5

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EXHIBIT RAMAPP- 2

STATISTICS: 8 REGULATED CO PORTFOLIOS 1966-84

PORTFOLIO (1)	a (2)	t(a) (3)	b (4)	t(b) (5)	R-SQUARED (6)	DIV YLD (7)	RETURN (8)
1	0.0002	0.12	0.48	14.21	0.47	0.068	10.50
2	-0.0015	-0.73	0.49	14.06	0.47	0.069	8.50
3	0.0002	0.09	0.46	12.27	0.40	0.084	10.30
4	-0.0014	-0.63	0.50	13.36	0.44	0.085	8.70
5	-0.0013	-0.57	0.56	13.95	0.46	0.057	9.10
6	-0.0013	-0.55	0.59	14.59	0.49	0.056	9.40
7	0.0002	0.08	0.47	12.54	0.41	0.082	10.30
8	-0.0010	-0.43	0.52	13.37	0.44	0.083	9.30



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EXHIBIT RAMAPP- 3

POOLED PORTFOLIO DATA

RETURN, BETA, AND DIVIDEND YIELD

Portfolio	Return	Beta	Dividend Yield
1	10.50%	0.48	
2	8.50%		6.80%
3	10.30%	0.49	6.90%
4	8.70%	0.46	8.40%
5	9.10%	0.50	8.50%
6	9.40%	0.56	5.70%
7	10.30%	0.59	5.60%
8	9.30%	0.47	8.20%
9	12.50%	0.52	8.30%
10	10.30%	0.65	2.10%
11	13.10%	0.73	2.10%
12	12.70%	0.84	2.10%
13	13.40%	0.70	4.20%
14	11.20%	0.72	4.20%
15	14.60%	0.86	4.20%
16	15.70%	0.69	6.40%
17	14.60%	0.77	6.20%
18	13.40%	0.73	6.50%
19	12.80%	0.94	1.80%
20	13.60%	0.99	1.90%
21	14.90%	1.05	1.40%
22	11.40%	0.90	4.00%
23	13.70%	0.93	4.10%
24	17.00%	0.99	4.00%
25	13.80%	0.86	6.00%
26	14.90%	0.88	6.00%
27	14.40%	0.94	6.10%
28	15.90%	1.29	0.30%
29	13.40%	1.44	0.30%
30	10.20%	1.47	0.20%
31	11.40%	1.05	2.50%
32	13.10%	1.20	2.50%
33	18.00%	1.28	2.50%
34	14.70%	1.10	4.90%
35	16.50%	1.04	4.70%
		1.10	4.80%

Attachment  
Page 29 of 29

Arizona Corporation Commission  
U S WEST Communications - Appendix B  
Rebuttal Testimony of Dr. Roger A. Mor:  
Page 28 March 28, 1989

EXHIBIT RAMAPP- 4

REGRESSION RESULTS: RETURN, BETA, DIVIDEND YIELD

RETURN & BETA

Regression Output:

Constant	0.082915
Std Err of Y Est	0.020661
R Squared	0.334653
No. of Observations	35
Degrees of Freedom	33

X Coefficient(s)	<u>0.052001</u>
Std. Err of Coef.	0.012763

RETURN & BETA & DIVIDEND YIELD

Regression Output:

Constant	0.042293
Std Err of Y Est	0.020012
R Squared	0.394712
No. of Observations	35
Degrees of Freedom	32

X Coefficient(s)	0.078717	0.398100
Std. Err of Coef.	0.019432	0.223412

FISCAL YEAR 2019

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**Mid-Session Review**

**BUDGET OF THE U.S. GOVERNMENT**

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

THE DIRECTOR

July 13, 2018

The Honorable Paul D. Ryan  
Speaker of the House of Representatives  
Washington, D.C. 20515

Dear Mr. Speaker:

Section 1106 of Title 31, United States Code, requests that the President send to the Congress a supplemental update of the Budget that was transmitted to the Congress earlier in the year. This enclosed supplemental update of the Budget, commonly known as the Mid-Session Review, contains revised estimates of receipts, outlays, budget authority, and the budget deficit for fiscal years 2018 through 2028.

Sincerely,

A handwritten signature in blue ink that reads "Mick" followed by a stylized surname and the year "2018".

Mick Mulvaney  
Director

Enclosure

Identical Letter Sent to The President of the Senate

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**GENERAL NOTES**

1. Unless otherwise noted, years referenced for budget data are fiscal years, and years referenced for economic data are calendar years.
2. All totals in the text and tables include both on-budget and off-budget spending and receipts unless otherwise noted.
3. Details in the tables and text may not add to totals due to rounding.
4. Web address: *http://www.budget.gov*

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## SUMMARY

Since President Trump took office in January of 2017, the Administration has focused on promoting policies that foster economic growth, wage increases, and job creation. That is why the Administration prioritized MAGAnomics policies to kick-start economic growth and job creation through reforming the tax code; fixing the regulatory structure; reducing burdensome federal health care mandates and opening up affordable coverage options; ensuring free, fair, and reciprocal trade; and implementing fiscal discipline through spending restraint. Americans have already experienced many benefits of MAGAnomics, including: 3.2 million jobs created since the President was sworn in, unemployment falling to 4 percent, job openings hitting a record high, and increased consumer and business confidence.

One of the President's immediate and highest priorities upon entering office was fixing the outdated tax structure that had not been reformed in more than 30 years. The outdated structure was driving companies overseas, preventing small businesses from expanding, and discouraging additional investment in the United States. President Trump and the Administration worked hand-in-hand with Congress to enact the historic Tax Cuts and Jobs Act (TCJA). Throughout the negotiations on the TCJA, the Administration focused on how to help middle-class families and distressed communities, as well as make the U.S. more competitive to attract needed capital investment for small businesses. The TCJA lowered taxes for families, doubled the child tax credit and the standard deduction, and expanded the use of 529 plans to include tuition for kindergarten to 12th grade at public, private, or religious schools. A study by the Council of Economic Advisers found that American households would see their annual income increase by an average of \$4,000 due to corporate tax reform alone, once the adjustment to that reform had run its course. The TCJA also created Opportunity Zones to encourage private investment in distressed communities. Opportunity Zones are a way to ensure that economic growth is experienced even in distressed communities.

Since the passage of the TCJA in December, the American economy has been revitalized. More than six million American workers have benefitted by receiving higher wages, bonuses, or increased retirement contributions from the companies they work for, and companies have also announced additional capital investment of more \$217 billion. The Labor Department reported that the U.S. had 6.7 million job openings compared with 6.3 million Americans who were unemployed, so that March, April, and May were the first months in which job openings exceeded the number of jobless Americans. Additionally, companies repatriated more than \$300 billion back to the United States in the first quarter of fiscal year 2018, setting a new record.

The American economy is growing at a rate above predictions, and the unemployment rate fell to the lowest level in nearly 50 years. At the beginning of the Trump Administration, the Blue Chip consensus forecast of real GDP growth (year-over-year) for 2018 was 2.4 percent; it has now grown to 2.9 percent. Additionally, we continue to see upward revisions of private forecasts of economic growth. Consensus forecasts through November 2017 were between 2.3 to 2.4 percent in 2018 and 2.1 percent in 2019. Since November, private forecasts have been revised steadily upward. As of last month, the Blue Chip consensus forecast is now for 2018 growth of 2.8 percent, and 2019 growth of 2.3 percent, upward revisions of 0.5 and 0.2 percentage points respectively since the passage of TCJA.

Official forecasts revisions suggest an even bigger bump. The CBO projected growth of 2.0 and 1.5 percent in 2018 and 2019. That has now been revised substantially—up to 3.3 and 2.4 percent, respectively, following implementation of the TCJA. Meanwhile, last summer, before the tax debate got seriously underway, the FOMC median forecast was for growth of just 2.1 and 1.9 percent in 2018 and 2019. That has since been revised up by 0.6 and 0.5 percentage points, respectively, with most of the upward revision occurring in December, as the tax bill made it over the legislative finish line.



In April, the IMF released its April 2018 World Economic Outlook (WEO). Global growth for 2018 was revised up 0.2 percentage points from its October WEO release to 3.9 percent year-over-year. The IMF attributes roughly half of the global growth revision to changes in U.S. fiscal policy. When honing in on the United States, the IMF's April 2018 update to its October 2017 World Economic Outlook revised up its growth forecast by 0.6 percentage points from October to 2.9 percent year-over-year. The IMF's April upwards revision to its October global growth forecast in the wake of the passage of the TCJA follows the OECD's own March upwards revision to its November global growth forecast. For the U.S., its 2018 outlook increased by 0.4 percentage points to 2.9 percent and its 2019 outlook increased by 0.7 percentage points to 2.8 percent.

The Trump Administration has also focused on liberating small businesses from regulatory red tape created under eight years of the Obama Administration. While small businesses were concerned about taxes and regulations under the Obama Administration, their concerns have noticeably diminished after the Trump Administration prioritized regulatory reform.

An important development in this effort occurred just days after his inauguration when, on January 30, 2017, President Trump issued Executive Order 13771: "Reducing Regulation and Controlling Regulatory Costs." Among other things, this executive order requires that, whenever a Federal department or agency issues a new regulatory action, it must identify at least two deregulatory actions.

Last year, the Administration greatly exceeded this goal as agencies issued 67 deregulatory actions while only imposing 3 new actions, resulting in a 22:1 deregulatory ratio. In fact in 2017, 1,579 regulatory actions were withdrawn or removed from active status, which included a 40 percent drop in economically significant regulations, and 35 percent drop in other significant regulations relative to 2009.

Furthermore, President Trump has implemented a renewed focus on cost-benefit analysis and transparency in the United States regulatory agenda.

For 2017, the heads of agencies had to ensure that the total incremental cost of all new

regulations, including repealed regulations, was no greater than zero, unless otherwise required by law. This new directive proved to be immediately successful.

In 2017, federal agencies achieved \$8.1 billion in the present value of net regulatory cost savings, the equivalent of \$570 million per year. These savings go beyond the Administration's goal of imposing zero regulatory costs in 2017. In contrast, the previous administration imposed between \$5.7 billion and \$15.2 billion in annualized regulatory costs in just its *final eight months* in office.

The Trump Administration will continue to place emphasis on reducing unnecessary, duplicative, and burdensome regulations. In calendar year 2018, federal agencies are committed to achieving \$9.8 billion in net savings in present value terms, or \$690 million per year. In addition, agencies projected they will continue to drive the deregulatory effort by issuing three deregulatory actions for each new regulatory action.

The Trump Administration is proud of the work we have done as we continue to cut red tape for American businesses, drastically improve our economy, and provide a more free society. Moreover, President Trump has worked to protect Americans by relieving the suffocating restraints of unfair foreign trade practices that have long been ignored by Congress. The United States is a generally open economy, compared with the rest of the world. For example, China's tariff on imported flat screen TVs is 30 percent and the European Union's 14 percent, while the U.S. only charges 3.9 percent on its imports. The U.S. tariff on wild rice is 1.1 percent, compared with China's and India's, at 65 percent and 70 percent, respectively.

Much like draining the swamp that is Washington, D.C., the President has been driving to change the behavior of trading partners around the world acting in bad faith by using existing U.S. trade laws to thwart unfair trade practices and improving deals that simply do not work for America. The President's objective of shifting the world economy to a new equilibrium, one with more reciprocity in trade agreements and reductions in global barriers, would deliver a substantial boost to U.S. and world growth.

SUMMARY

3

During his first days in office, President Trump announced that the United States would withdraw from the Trans-Pacific Partnership. Further, the Administration is working to address China's unfair trade and intellectual property policies through a range of actions. In addition, the Trump Administration secured amendments to the KORUS trade agreement with South Korea, including provisions to increase American automobile exports. The Trump Administration also conducted 82 antidumping and countervailing duty investigations in 2017, a 58 percent increase in investigations over 2016. President Trump will continue work to ensure that there is free, fair, and reciprocal trade.

While focusing on the economic health of the Nation, the Trump Administration continues to work toward getting the Nation's fiscal house in order. The Administration inherited a tremendous debt and deficit problem, including an increase in the debt of more than \$9 trillion over the eight years of the Obama Administration, which was clearly on an unsustainable path. The President's budgets have made difficult choices in order to rein in spending, lower the growth of the national debt, and focus Government on its most important job: protecting the Nation.

The President supported Congressional efforts to replace Obamacare and his most recent Budget would save nearly \$700 billion by replacing Obamacare with legislation modeled closely after the Graham-Cassidy-Heller-Johnson (GCHJ) bill. Additional reforms within the 2019 budget would help set Government healthcare spending on a sustainable fiscal path that leads to a bigger bang for the buck. Addressing Obamacare would have also reduced regulatory burdens for small businesses, some of whom stayed below 50 full-time workers to avoid penalties while shifting full-time workers to part-time status. In the TCJA, Congress repealed the Obamacare individual mandate, eliminating the tax penalty for Americans who decided not to buy coverage. The Administration will continue to work with Congress to provide relief from Obamacare's mandates and increase more affordable and flexible coverage options.

The Mid-Session Review (MSR) provides updated estimates for changes that have occurred since the President's budget was re-

leased in February. The 2019 deficit has been revised to \$1.1 trillion. The increases in the deficit compared with the Budget are almost entirely related to increases in spending from the Bipartisan Budget Act of 2018 and the subsequent Consolidated Appropriations Act, 2018 (Omnibus). The President signed the Omnibus to secure a historic and much-needed funding increase for our military, but he does not support its unnecessary increases to non-defense spending. The MSR incorporates the President's proposal to constrain non-defense discretionary spending going forward, saving nearly \$900 billion compared with current law.

Despite the increases from enacted legislation, under the President's policies to cut spending and grow the economy, the deficit will fall from 4.4 percent of GDP in 2018 to 1.4 percent of GDP in 2028. The Administration will continue to work with Congress to enact fiscal discipline through spending restraint.

President Trump's policies are fostering a growing economy. Since taking office, this President promised to deliver on job creation and economic growth. While some experts have had a pessimistic view of the American economy, we believe that these estimates continue to underestimate hard-working Americans and the true potential of the American spirit. Such pessimism may have been fueled by the historically weak economic recovery under the Obama Administration since the 2008-2009 economic downturn. From 2010 through 2016, fourth quarter-over-fourth quarter (Q4/Q4) growth of real GDP averaged only 2.1 percent. In 2016, real GDP growth had sunk to an annual rate of only 1.8 percent, and labor productivity growth in the nonfarm business sector was 0.0 percent. The beginning of the Trump Administration marked a clear break from this pattern of underperformance. In 2017, real GDP (Q4/Q4) grew at a rate of 2.6 percent, far exceeding the projections of many experts, and labor productivity grew at 1.3 percent. Meanwhile, the unemployment rate has dropped from 4.8 percent in January 2017 to only 4.0 percent in June 2018.

The President's policies have also resulted in a surge in investment. In the 6.5 years between the start of the recovery in the third quarter of 2009 and 2015, growth in real private nonresidential fixed investment averaged 4.8 percent, and had slowed to just 0.7 percent

in 2016. Since then, growth jumped to 6.3 percent for the four quarters of 2017, and in the first quarter of 2018 grew at an annual rate of 10.4 percent. Growth of equipment investment jumped to 11.6 percent in fourth quarter of 2017 and 5.8 percent in the first quarter of 2018, thanks largely to the tax law's allowance for full expensing of equipment investment retroactively to September 2017. Meanwhile, real private business investment in structures

and intellectual property has also surged—up 16.2 percent for structures and 13.2 percent for intellectual property, respectively, in the first quarter of 2018. Planned capital expenditure indices have accordingly reached record or near-record highs.

The Administration will continue to work to implement MAGAnomics policies to further strengthen this Nation.

**Table 1. CHANGES IN DEFICITS FROM THE FEBRUARY BUDGET**

(In billions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
2019 Budget deficit .....	873	984	987	916	852	774	672	579	517	450	363		
Percent of GDP .....	4.4%	4.7%	4.5%	3.9%	3.5%	3.0%	2.5%	2.1%	1.7%	1.4%	1.1%		
Enacted legislation and policy changes:													
Enacted legislation <sup>1</sup> .....	100	91	50	24	17	10	11	17	-13	-19	14	191	202
Policy changes to account for enacted legislation .....		10	39	58	63	64	64	63	61	61	60	234	543
Debt service .....	1	4	8	11	14	17	20	23	26	28	31	54	182
Subtotal, enacted legislation and policy changes .....	100	105	96	93	94	92	96	104	74	69	105	479	928
Economic and technical reestimates:													
Receipts .....	9	-17	-16	-9	-6	2	-27	-26	-13	-10	-3	-46	-124
Outlays:													
Discretionary programs .....	-87	-11	-1	10	19	9	7	2	-1	-2	-3	27	30
Mandatory:													
Medicare .....	1	-2	-7	-9	-15	-14	-13	-21	13	19	-27	-47	-76
Medicaid .....	-2	4	6	6	6	7	7	8	9	10	10	29	73
Social Security .....	-4	-5	-5	-6	-6	-6	-6	-6	-6	-7	-7	-29	-60
Veterans' benefits .....	1	1	2	2	3	3	3	3	4	4	5	11	29
Other <sup>2</sup> .....	-13	-1	-1	-2	-5	-6	-8	-1	-4	-2	-4	-16	-34
Total mandatory .....	-18	-2	-6	-9	-17	-17	-16	-16	15	24	-24	-51	-68
Net interest <sup>3</sup> .....	11	25	15	10	11	15	17	16	15	17	19	76	161
Subtotal, outlays .....	-93	13	8	11	12	7	8	2	30	39	-8	51	123
Subtotal, economic and technical reestimates .....	-84	-4	-8	2	6	9	-19	-24	17	30	-11	6	-1
Total, changes .....	17	101	89	95	100	101	77	80	91	99	94	485	926
Mid-Session Review deficit .....	890	1,085	1,076	1,011	952	875	749	659	608	549	458		
Percent of GDP .....	4.4%	5.1%	4.8%	4.3%	3.9%	3.4%	2.8%	2.3%	2.0%	1.7%	1.4%		

Note: positive figures represent higher outlays or lower receipts.

\*\$500 million or less.

<sup>1</sup> Includes outlay and receipt effects.

<sup>2</sup> Includes reestimates of the effect of standardizing to 12 monthly benefit payments.

<sup>3</sup> Includes debt service on all reestimates.

## ECONOMIC ASSUMPTIONS

This Mid-Session Review (MSR) updates the economic forecast from the 2019 Budget, which was finalized in November 2017 and released with the Budget in February 2018. The Budget projected real Gross Domestic Product (GDP) growth averaging 3.0 percent during the 11-year forecast interval. A substantial increase in real GDP was projected for 2018. After that, real GDP growth was projected to increase through 2019, decrease to 3.0 percent for 2021 through 2024, and decline to 2.8 percent for 2026 through 2028. The unemployment rate was expected to continue to decline in the near term and then to slowly rise to the Administration's estimate of its long-run equilibrium. Inflation was expected to rise in 2019 to a rate more consistent with Federal Reserve targets, and interest rates were expected to rise appreciably in the near term and then settle at a rate roughly consistent with rates implied by the term structure of current rates. The MSR forecast, completed in early June, maintains this overall outlook with modifications to account for recent data. Most notably, the anticipated increases in interest rates and inflation have occurred more quickly than expected. Other than revisions to the interest rate and inflation forecasts in the near term, however, the MSR economic trajectory is similar to the 2019 Budget forecast.

The economic recovery following the 2008-2009 downturn was unusually slow relative to other postwar recoveries. Recently, economic growth has generally been modest, with real GDP growing at only 1.8 percent during the four quarters of 2016. Since this Administration took office, growth has increased considerably. In contrast to its lackluster performance in 2016, real GDP grew at 2.6 percent over the four quarters of 2017, slightly exceeding this Administration's 2018 Budget forecast of 2.5 percent. Meanwhile,

the labor market in 2018 has been remarkably strong, with payroll employment posting robust and sustained growth and unemployment rates falling to historic lows. By June, the unemployment rate stood at 4.0 percent and the economy had added over 3.2 million nonfarm jobs since the President took office.

The Administration's efforts to increase economic growth led to the passage of the Tax Cuts and Jobs Act in December 2017. In addition, many burdensome and unnecessary regulations were removed under Executive Orders 13771 and 13777, and the Administration will continue to target and eliminate unnecessary regulations going forward. The Administration is also currently pursuing policies that would establish paid family leave for new parents, spur investments in infrastructure, encourage domestic energy production, negotiate fair trade agreements, and reduce Federal budget deficits. These policies should bolster economic growth in both the short and long run.

Growth and unemployment are roughly on track with the projections in the Budget. While growth slowed down somewhat in the first quarter of 2018, this follows an observed seasonal pattern of slower growth in the first quarter in recent years. The MSR forecasts a rebound in real GDP growth in subsequent quarters, and maintains the same yearly growth rates as were projected in the Budget. Since the economic forecast for the Budget was finalized in November 2017, interest rates and inflation have been higher than expected. Relative to the Budget forecast, the MSR forecast includes a substantial increase in interest rates in the near term, which narrows down to only a slight increase in the long run. Inflation rates are forecasted to be higher in 2018 and 2019, but the same as those projected in the Budget in the medium term and long run.

## ECONOMIC PROJECTIONS

The Administration's forecast is based on information available to forecasters at the beginning of June, and it retains the assumption

that the President's policy proposals in the 2019 Budget will be fully enacted. The projections for key variables can be found in Table 2.

**Real Gross Domestic Product:** Real GDP growth in 2018 is expected to be 3.1 percent on a fourth quarter-over-fourth quarter (Q4/Q4) basis, with growth increasing slightly to 3.2 percent in 2019 before edging down to 2.8 percent in the long run. Both year-over-year and Q4/Q4 growth rates are identical to those in the Budget for every year in the forecast.

**Unemployment Rate:** The unemployment rate has remained consistent with the 2019 Budget projections, falling to 4.1 percent in the fourth quarter of 2017 and continuing to decline thus far in 2018. The unemployment rate is expected to average 3.8 percent in 2018 and 3.7 in 2019, and then slowly climb back towards 4.8 percent in 2027, which is the Administration's estimate of the rate of unemployment consistent with stable inflation in the long run.

**Inflation:** Post-financial crisis, the inflation rate has been low compared with the post-World War II average. The medium- and long-run inflation rate projections in the MSR remain consistent with the 2019 Budget assumptions, with year-over-year long-run rates of 2.0 percent for the GDP chained price index and 2.3 percent when measured by the Consumer Price Index for All Urban Consumers (CPI-U). These rates are consistent with Federal Reserve inflation targets. Inflation has climbed higher in the near term, however, than was expected when the Budget assumptions were finalized in November 2017. For 2018, projected year-over-year inflation in

the GDP chained price index has been adjusted upwards from 1.6 to 1.9 percent and year-over-year CPI-U inflation has been increased from 2.1 to 2.5 percent based on recent data.

**Interest Rates:** Interest rate forecasts comprise the most substantial change from the 2019 Budget to the MSR. Treasury rates have increased notably since 2016. While the Budget did forecast increases in interest rates in the near term, these increases have been more pronounced than expected during the first half of 2018. Relative to the 2019 Budget, in the MSR the projected average rate for the 91-day Treasury bill has been increased from 1.5 to 2.1 percent in 2018, and 2.3 to 2.7 percent in 2019. Similarly, the annual average yield on 10-year Treasury notes has been increased from 2.6 percent to 3.0 percent in 2018, and 3.1 to 3.2 percent in 2019. After the near term, the revision to the interest rate projections tapers off. For both 91-day Treasury bills and 10-year Treasury notes, the long-run rates have been adjusted only slightly upwards by 0.1 percentage point from the 2019 Budget to the MSR.

**Incomes and Income Shares:** Labor compensation and corporate profit trends remain roughly the same as in the 2019 Budget projections. As a share of Gross Domestic Income, labor compensation and wages and salaries are expected to increase, while corporate profits are expected to decline, with most of this evolution of income shares taking place during the middle and later years of the forecast.

## FORECAST COMPARISONS

The Administration's MSR forecast is similar to those of the Congressional Budget Office (CBO), the Federal Reserve's Federal Open Market Committee (FOMC), and the Blue Chip panel of private sector forecasters for most economic variables, but notably higher for real GDP growth. The Administration's more optimistic forecast for real GDP growth can largely be accounted for by its expectation of higher productivity growth in the medium to long run, and by the Administration's assumption that the President's policy proposals will be enacted. By contrast, the CBO's forecast assumes roughly current law policies and a more pessimistic expectation for long-run productivity growth. The Blue Chip consensus reflects

a combination of various unspecified policy assumptions among private sector forecasters. A comparison of forecasts for key economic variables is found in Table 3.

**Real Gross Domestic Product:** The Administration's Q4/Q4 forecast for real GDP growth differs from those published by the CBO in April, by the FOMC in June, and by the Blue Chip consensus in March (for the long-run forecast) and July (for the short-run forecast). The CBO projected the highest 2018 growth rate at 3.3 percent, 0.2 percentage points higher than the Administration's projection of 3.1 percent. The Blue Chip consensus forecast for the 2018 growth rate is 2.9 percent, and the FOMC central tendency

ECONOMIC ASSUMPTIONS

**Table 2. ECONOMIC ASSUMPTIONS<sup>1</sup>**

(Calendar Years, Dollar Amounts in Billions)

	Actual		Projections										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Gross Domestic Product (GDP):</b>													
Levels, Dollar Amounts in Billions:													
Current Dollars .....	18,624	19,391	20,358	21,422	22,544	23,693	24,895	26,156	27,482	28,857	30,274	31,746	33,290
Real, Chained (2009) Dollars .....	16,716	17,096	17,609	18,176	18,746	19,316	19,895	20,492	21,106	21,726	22,343	22,968	23,612
Chained Price Index (2009=100), Annual Average .....	111.4	113.4	115.6	117.9	120.3	122.7	125.1	127.6	130.2	132.8	135.5	138.2	141.0
Percent Change, Fourth Quarter over Fourth Quarter:													
Current Dollars .....	3.4	4.5	5.0	5.3	5.2	5.1	5.1	5.1	5.1	5.0	4.9	4.9	4.9
Real, Chained (2009) Dollars .....	1.8	2.6	3.1	3.2	3.1	3.0	3.0	3.0	3.0	2.9	2.8	2.8	2.8
Chained Price Index (2009=100) .....	1.5	1.9	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Percent Change, Year over Year:													
Current Dollars .....	2.8	4.1	5.0	5.2	5.2	5.1	5.1	5.1	5.1	5.0	4.9	4.9	4.9
Real, Chained (2009) Dollars .....	1.5	2.3	3.0	3.2	3.1	3.0	3.0	3.0	3.0	2.9	2.8	2.8	2.8
Chained Price Index (2009=100) .....	1.3	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Incomes, Billions of Current Dollars:</b>													
Domestic Corporate Profits .....	1,679	1,732	1,843	1,979	2,046	2,077	2,087	2,084	2,079	2,090	2,089	2,087	2,088
Employee Compensation .....	9,979	10,309	10,802	11,300	11,855	12,494	13,189	13,927	14,705	15,520	16,364	17,244	18,173
Wages and Salaries .....	8,085	8,353	8,742	9,150	9,608	10,128	10,699	11,301	11,931	12,595	13,279	13,997	14,744
Other Taxable Income <sup>2</sup> .....	4,427	4,572	4,724	5,000	5,341	5,678	6,055	6,419	6,776	7,122	7,427	7,772	8,059
<b>Consumer Price Index (All Urban):<sup>3</sup></b>													
Level (1982-1984 = 100), Annual Average .....													
	240.0	245.1	251.2	256.5	262.3	268.2	274.3	280.6	286.9	293.4	300.1	306.9	313.9
Percent Change, Fourth Quarter over Fourth Quarter .....													
	1.8	2.1	2.3	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Percent Change, Year over Year .....													
	1.3	2.1	2.5	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
<b>Unemployment Rate, Civilian, Percent:</b>													
Fourth Quarter Level .....	4.7	4.1	3.8	3.7	3.8	3.9	4.1	4.2	4.4	4.5	4.8	4.8	4.8
Annual Average .....	4.9	4.4	3.9	3.7	3.8	3.9	4.0	4.2	4.3	4.5	4.7	4.8	4.8
<b>Interest Rates, Percent:</b>													
91-Day Treasury Bills <sup>6</sup> .....	0.3	0.9	2.1	2.7	3.0	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0
10-Year Treasury Notes .....	1.8	2.3	3.0	3.2	3.4	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7
<b>Federal Pay Raises, January, Percent:</b>													
Military <sup>4</sup> .....	1.0	1.0	2.4	2.6	NA	NA	NA	NA	NA	NA	NA	NA	NA
Civilian <sup>5</sup> .....	1.0	1.0	1.9	.....	NA	NA	NA	NA	NA	NA	NA	NA	NA

<sup>1</sup> Based on information available as of early June 2018

<sup>2</sup> Rent, interest, dividend, and proprietors' income components of personal income

<sup>3</sup> Seasonally adjusted CPI for all urban consumers

<sup>4</sup> Percentages apply to basic pay only; percentages to be proposed for years after 2019 have not yet been determined.

<sup>5</sup> Overall average increase, including locality pay adjustments. Percentages to be proposed for years after 2019 have not yet been determined.

<sup>6</sup> Average rate, secondary market (bank discount basis)

ranges from 2.7 to 3.0 percent. From 2019 onward, the Administration's forecasts are substantially higher than those of other forecasters. The Administration projects Q4/Q4 real GDP growth of 3.2 percent in 2019, declining gradually to a rate of 2.8 percent for 2026 through 2028. In contrast, the CBO projects a 2028 rate of 1.8 percent, the Blue Chip consensus projects a 2028 rate of 2.0 percent, and the FOMC central tendency ranges from 1.8 to 2.0 percent in the long run. However, the FOMC, CBO, and Blue Chip do not assume the implementation of all of the Administration's policies.

**Unemployment:** The Administration's unemployment rate projections are generally similar to those of the other forecasters. The CBO forecast deviates from other forecasts in 2019 and 2020, projecting noticeably lower unemployment rates in those years. By 2028, the Administration projects the unemployment rate to have risen to 4.8 percent, the same rate as projected by the CBO and somewhat higher than the 4.5 percent rate projected by the Blue Chip consensus.

**Inflation:** Inflation forecasts are relatively consistent across the different forecasts. The Administration's 2.5 percent year-over-year CPI-U inflation rate in 2018 lies above the CBO's 2.2 percent and below the Blue Chip consensus of 2.6 percent. In the long run, the Administration projects a year-over-year rate of 2.3 percent, the same as the Blue Chip consensus projection and slightly below the 2.4 percent projection from the CBO.

**Interest Rates:** On interest rates, the Administration's forecasts are similar to those of the Blue Chip consensus and roughly similar to those of the CBO. All three have adjusted their near-term forecasts upwards since November 2017 based on recent data. The CBO projects much higher interest rates from 2019 through 2022 than do other forecasters. By 2028, the Administration and the CBO both project an average annual rate of 3.7 percent for the 10-year Treasury note, slightly below the Blue Chip consensus projection of 3.8 percent. Projections of the 91-day Treasury bill rate are likewise similar among the forecasters by the end of the forecast period.

ECONOMIC ASSUMPTIONS

**Table 3. COMPARISON OF ECONOMIC ASSUMPTIONS**

(Calendar Years)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Nominal GDP:</b>												
2019 MSR .....	19,391	20,358	21,422	22,544	23,693	24,895	26,156	27,482	28,857	30,274	31,746	33,290
2019 Budget .....	19,372	20,262	21,263	22,345	23,482	24,672	25,923	27,234	28,598	30,001	31,461	32,991
CBO .....	19,391	20,362	21,369	22,247	23,079	23,937	24,857	25,832	26,849	27,866	28,957	30,087
Blue Chip .....	19,391	20,378	21,377	22,252	23,150	24,150	25,175	26,243	27,334	28,466	29,645	30,873
<b>Real GDP (Fourth Quarter-over-Fourth Quarter):</b>												
2019 MSR .....	2.6	3.1	3.2	3.1	3.0	3.0	3.0	3.0	2.9	2.8	2.8	2.8
2019 Budget .....	2.5	3.1	3.2	3.1	3.0	3.0	3.0	3.0	2.9	2.8	2.8	2.8
CBO .....	2.5	3.3	2.4	1.8	1.5	1.6	1.6	1.8	1.7	1.7	1.9	1.8
Blue Chip .....	2.6	2.9	2.3	1.8	1.9	2.1	2.1	2.1	2.0	2.0	2.0	2.0
FOMC <sup>3</sup> .....		2.7-3.0	2.2-2.6	1.8-2.1						1.8-2.0 (longer run)		
<b>Real GDP (Year-over-Year):</b>												
2019 MSR .....	2.3	3.0	3.2	3.1	3.0	3.0	3.0	3.0	2.9	2.8	2.8	2.8
2019 Budget .....	2.2	3.0	3.2	3.1	3.0	3.0	3.0	3.0	2.9	2.8	2.8	2.8
CBO .....	2.3	3.0	2.9	2.0	1.5	1.5	1.6	1.7	1.8	1.7	1.8	1.8
Blue Chip .....	2.3	2.9	2.6	1.9	1.9	2.1	2.1	2.1	2.0	2.0	2.0	2.0
<b>GDP Price Index: <sup>1</sup></b>												
2019 MSR .....	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
2019 Budget .....	1.7	1.6	1.7	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CBO .....	1.8	1.9	2.0	2.1	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1
Blue Chip .....	1.8	2.1	2.3	2.1	2.1	2.2	2.1	2.1	2.1	2.1	2.1	2.1
<b>Consumer Price Index (CPI-U): <sup>1</sup></b>												
2019 MSR .....	2.1	2.5	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
2019 Budget .....	2.1	2.1	2.0	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
CBO .....	2.1	2.2	2.2	2.4	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.4
Blue Chip .....	2.1	2.6	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
<b>Unemployment Rate: <sup>2</sup></b>												
2019 MSR .....	4.4	3.9	3.7	3.8	3.9	4.0	4.2	4.3	4.5	4.7	4.8	4.8
2019 Budget .....	4.4	3.9	3.7	3.8	3.9	4.0	4.2	4.3	4.5	4.7	4.8	4.8
CBO .....	4.4	3.8	3.3	3.6	4.1	4.6	4.7	4.8	4.8	4.9	4.8	4.8
Blue Chip .....	4.4	3.8	3.6	4.0	4.2	4.3	4.4	4.4	4.5	4.5	4.5	4.5
FOMC .....		3.6-3.7	3.4-3.5	3.4-3.7						4.3-4.6		
<b>Interest Rates: <sup>3</sup></b>												
<b>91-Day Treasury Bills (discount basis):</b>												
2019 MSR .....	0.9	2.1	2.7	3.0	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0
2019 Budget .....	0.9	1.5	2.3	2.9	3.0	3.0	2.9	2.9	2.9	2.9	2.9	2.9
CBO .....	0.9	1.9	2.9	3.6	3.8	3.6	3.1	2.8	2.7	2.7	2.7	2.8
Blue Chip .....	0.9	1.9	2.7	2.7	2.8	2.9	2.9	2.9	3.0	3.0	3.0	3.0
<b>10-Year Treasury Notes</b>												
2019 MSR .....	2.3	3.0	3.2	3.4	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7
2019 Budget .....	2.3	2.6	3.0	3.4	3.6	3.7	3.6	3.6	3.6	3.6	3.6	3.6
CBO .....	2.3	3.0	3.7	4.1	4.2	4.0	3.8	3.7	3.7	3.7	3.7	3.7
Blue Chip .....	2.3	3.0	3.4	3.5	3.6	3.7	3.7	3.7	3.8	3.8	3.8	3.8

Sources: Administration; CBO, The Budget and Economic Outlook: 2018 to 2028, April 2018; March 2018 and July 2018 Blue Chip Economic Indicators, Aspen Publishers, Inc.; Federal Reserve Open Market Committee, June 13, 2018

<sup>1</sup> Year-over-Year Percent Change

<sup>2</sup> Annual Averages, Percent

<sup>3</sup> The FOMC's central tendency for longer term growth is 1.8% to 2.0%. Longer term growth represents each participant's assessment of the rate to which GDP growth would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy.



## RECEIPTS

The Mid-Session Review (MSR) estimates of receipts are below the 2019 Budget estimates by \$18 billion in 2018 and above those estimates by \$2 billion in 2019. The MSR estimates of receipts are above the Budget estimates by \$7 billion in 2020 and differ from the Budget by \$1 billion to \$27 billion in each subsequent year, for a net increase in receipts of \$95 billion over the 10-year budget window (2019 through 2028).

A little more than half of the decrease in 2018 receipts is attributable to technical revisions based on new tax reporting data, collections to date, and other information, which decrease receipts by \$11 billion. Enacted legislation further reduced receipts by \$9 billion, while revised economic assumptions increase 2018 receipts by \$1 billion.

The estimate of 2019 receipts is above the Budget estimate due to an \$18 billion increase in receipts attributable to technical revisions, offset by a \$15 billion reduction in receipts due to enacted legislation.

The \$95 billion increase in receipts over the 10-year budget horizon is largely the result of a \$320 billion gain attributable to revisions in the economic forecast, offset by a reduction in receipts from technical revisions under the Administration's adjusted baseline that reduce receipts by \$210 billion. Enacted legislation further reduces receipts by \$29 billion. Reestimates of the Administration's proposals increase receipts by \$15 billion.

## ECONOMIC CHANGES

Revisions in the economic forecast increase receipts by \$1 billion in 2018, decrease receipts \$1 billion in 2019, and increase receipts by rising amounts in each subsequent year, for a total increase of \$320 billion over the 10 years from 2019 through 2028.

In 2018, revisions to the economic forecast have the greatest effect on individual and corporation income taxes, increasing individual income taxes by \$5 billion and reducing corporation income taxes by \$3 billion. The increase in individual income taxes is primarily attributable to increases in the forecast of wages and salaries. Changes in the forecasts of Gross Domestic Product (GDP) and other economic measures that affect the profitability of corporations are primarily responsible for the reduction in corporation income taxes.

Over the 10-year budget window, revisions in the economic forecast have the greatest effect on individual income taxes, increasing collections by \$252 billion. Revisions in the economic forecast increase 10-year collections of corporate income taxes and social insurance and retirement receipts by \$59 billion and \$32 billion, respectively. Increases in the forecasts of taxable corporate income relative to the Budget forecast are primarily due to upward revisions in the forecast of nominal GDP. Increases in the forecast of wages and salaries, which are subject to Social Security and Medicare payroll taxes (the largest components of social insurance and retirement receipts), account for most of the increase in this source of receipts. Revisions in the forecasts of GDP, interest rates, imports, and other sources of income decrease all remaining sources of receipts by a net \$23 billion.

## TECHNICAL CHANGES

Technical revisions in the estimates of receipts reduce receipts by \$11 billion in 2018 and increase receipts by \$18 billion in 2019. Technical revisions reduce or slightly increase receipts in each subsequent year, for a net de-

crease in receipts of \$210 billion over the 10 years, 2019 through 2028. The downward technical revisions in 2018 are primarily due to revised estimates of the payment pattern of health insurance provider fees which re-

duced excise taxes by \$11 billion. In addition to the excise tax reduction, technical revisions reduced other miscellaneous receipts by \$13 billion, offset by an increase of \$25 billion for individual income taxes based largely on collections experience since the Budget.

Over the 10-year budget window, technical revisions decrease collections of individual income taxes by \$247 billion. About three-quarters of this reduction is due to including extension of two provisions affecting pass-through business income in the estimates of

the extension of the Tax Cuts and Jobs Act of 2018 (TCJA) included in the Administration's adjusted baseline. These provisions were not included in the estimates of the extension of expiring TCJA provision in the 2019 Budget. Technical revisions increase corporation income taxes by \$32 billion. Technical revisions in all other sources of receipts (social insurance and retirement receipts, excise taxes, customs duties, estate and gift taxes, deposits of earnings of the Federal Reserve System, and penalties and fees) result in a net 10-year increase in receipts of \$4 billion.

#### **ENACTED LEGISLATION AND REVISIONS IN PROPOSALS**

The Extension of Continuing Appropriations Act, 2018, is the largest piece of legislation enacted since the Budget that had an effect on receipts, decreasing 10-year collections, 2019 through 2028, by \$31 billion. These reductions in receipts are largely due to a provision in the Act that delayed the effective date of the excise tax on high cost employer-sponsored health coverage and the suspension of the 2019 annual fee on health insurance providers. Smaller receipt provisions

in the Bipartisan Budget Act of 2018 and the Consolidated Appropriations Act, 2018, combined to increase receipts by \$2 billion over the 10-year budget window. Changes in the estimates of receipt proposals increased receipts by \$15 billion over the 10-year window. Proposals to repeal and replace Obamacare, provide parental leave benefits, and the reauthorization the Oil Spill Liability Fund excise tax were the primary drivers of the change in receipt proposals.

RECEIPTS

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**Table 4. CHANGES IN RECEIPTS**

(In billions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019- 23	2019- 28
2019 Budget estimate .....	3,340	3,422	3,609	3,838	4,089	4,386	4,675	4,946	5,231	5,506	5,818		
<b>Changes in current law receipts due to revised economic assumptions:</b>													
Individual income taxes .....	5	10	10	11	14	18	23	27	38	47	54	62	252
Corporation income taxes .....	-3	-6	-4	-2	-2	*	5	11	16	20	22	-14	59
Social insurance and retirement .....	-1	-*	1	-*	3	4	4	5	4	5	5	8	32
Other .....	*	-4	2	1	-2	-5	-5	-4	-2	-2	-1	-9	-23
Total, changes due to revised economic assumptions .....	1	-1	8	11	12	17	27	39	56	69	81	48	320
<b>Changes in adjusted baseline receipts due to technical reestimates<sup>1</sup></b>													
Individual income taxes .....	25	5	4	-10	-13	-13	-12	-19	-48	-66	-76	-26	-247
Corporation income taxes .....	-8	7	-3	6	6	3	1	2	-1	2	9	19	32
Social insurance and retirement .....	2	6	10	11	13	13	13	14	15	17	14	52	125
Other .....	-29	*	-9	-9	-10	-21	-3	-12	-13	-15	-29	-49	-121
Total, changes due to technical reestimates .....	-11	18	2	-1	-5	-19	-1	-15	-46	-63	-82	-4	-210
<b>Changes in current law receipts due to enacted legislation</b>													
.....	-9	-15	-9	-6	-5	1	1	1	1	1	1	-34	-29
<b>Changes in proposals due to enacted legislation and economic and technical revisions</b>													
.....	*	-*	5	-2	-1	-*	*	2	3	3	4	2	15
Total, changes in proposals .....	*	-*	5	-2	-1	-*	*	2	3	3	4	2	15
Total change in receipts .....	-18	2	7	2	1	-1	27	27	14	11	4	12	95
2019 Mid-Session estimate .....	3,322	3,424	3,616	3,841	4,090	4,385	4,703	4,973	5,245	5,517	5,821		

<sup>1</sup> Includes economic and technical reestimates of receipt effects of extending expiring TCJA individual and estate provisions

\* \$500 million or less.

## EXPENDITURES

Outlays for 2018 in the Mid-Session Review (MSR) are estimated to be \$4,212 billion, \$2 billion lower than the 2019 Budget estimate. After the current year, outlays increase relative to the 2019 Budget by around \$100 billion in 2019 and in each year through 2028 for a total increase of \$1,022 billion over the 10-year budget horizon. The increase in spending is primarily due to legislation enacted since the Budget was completed, policy changes to account for enacted legislation, and debt service on those changes. In addition, economic and technical reestimates across a large number of discretionary and mandatory programs, as well as net interest, increased outlays over the next 10 years.

### Enacted Legislation Changes

Relative to estimates in the Budget, legislation enacted since the Budget was completed increases outlays by \$91 billion in 2018 and by \$173 billion over the 10-year budget window. Two laws increased discretionary spending: Public Law 115-123, the Bipartisan Budget Act of 2018 (BBA), and Public Law 115-141, the Consolidated Appropriations Act, 2018 (Omnibus). These two laws increased discretionary outlays by \$91 billion in 2018, and by an additional \$91 billion from 2019 to 2028.

Four laws enacted since the Budget was completed affected mandatory spending: the BBA; the Omnibus; as well as Division B of Public Law 115-120, Extension of Continuing Appropriations Act, 2018; and Public Law 115-182, VA MISSION Act of 2018. Together these laws increase net mandatory spending relative to Budget estimates by \$82 billion over the next 10 years.

- The Children's Health Insurance Program (CHIP) was extended twice since the Budget was completed. Public Law 115-120, the Extension of Continuing Appropriations Act, 2018, enacted in January, but too late to be included in the Budget, extended CHIP through 2023, and the BBA further extended CHIP through 2027. Compared to the 2019

Budget proposal, these two extensions increased net outlays for CHIP, Medicaid, and refundable premium tax credits and cost sharing reductions and increased outlays by a net \$50 billion through 2028.

- The BBA additionally increased net mandatory outlays across a number of programs by \$5 billion from the Budget in the current year and by \$27 billion over the next 10 years. The BBA increased outlays for the Commodity Credit Corporation because of changes to dairy and cotton support and payment limits for disaster assistance. It also increased funding for the Health Resources and Services Administration, as well as other divisions within the Department of Health and Human Services, and enacted Medicare and Medicaid proposals from the 2019 Budget.
- In addition to providing discretionary funding, the Omnibus decreased mandatory spending in 2018 by \$6 billion primarily due to a change to Crime Victims Fund spending, but increased spending over the next 10 years by \$1 billion relative to the Budget.
- Public Law 115-182, the VA MISSION Act of 2018, increased spending for the Veterans Choice Program by \$4.3 billion.

### Policy Changes to Account for Enacted Legislation

Outlays increase by \$543 billion from 2019 to 2028 due to changes the Administration made in its 2019 Budget request to account for the increased discretionary caps enacted in the Bipartisan Budget Act of 2018. After the Administration finalized the 2019 Budget, the Congress reached an agreement to raise the defense and non-defense discretionary spending caps in 2018 and 2019. The Administration accounted for these increases in the discretionary caps in an addendum to the 2019 Budget and a subsequent budget amendment. These changes fully supported the defense cap enact-

ed in the BBA. For non-defense, these adjustments provided a higher level for 2019 appropriations to account for the higher cap level, for additional support for a limited number of Administration priorities, for the shifting of some funding responsibilities from the mandatory side, and for curtailing the use of budget gimmicks. The 2019 Budget then continued the “two-penny plan” to reduce non-defense discretionary spending by two percent a year in the outyears. While overall these adjustments were \$57 billion below the non-defense level allowed by the BBA, they appear as an increase in this presentation since it reflects an increase relative to the original Budget levels before the BBA.

### **Estimating Changes**

Estimating changes are due to factors other than enacted legislation or changes in policy. These result from changes in economic assumptions, discussed earlier in this MSR, and changes in technical factors. Relative to the Budget estimates, economic and technical changes decrease estimated outlays for 2018 by \$93 billion, and increase outlays by \$123 billion from 2019 through 2028.

**Discretionary Programs.** Outlays for discretionary programs decrease by \$87 billion in 2018, but increase by \$30 billion over the next 10 years relative to the Budget as a result of technical revisions. The changes in 2018 reflect lower outlays compared to the Budget for both defense, \$37 billion, and non-defense, \$52 billion, discretionary programs, due to slower-than-expected spending patterns and delayed congressional action on appropriations.

Outlays over the 10-year period decrease by \$4 billion for defense programs, but increase by \$15 billion for non-defense base programs and by an additional \$19 billion for changes to emergency and disaster funding, and adjustments for program integrity and other adjustments.

**Medicare.** Economic and technical revisions increase outlays for Medicare by \$1 billion in 2018, and decrease outlays by \$76 billion from 2019 to 2028 relative to Budget estimates. The decrease is primarily due to technical factors that reduce projected Medicare Part A spending, such as a decline in estimated enrollment and updated data on utili-

zation (e.g., hospital discharges, home health utilization, and skilled nursing facility utilization). These decreases are partially offset by increases in Medicare Part B due to changes in assumptions about market baskets, Consumer Price Index (CPI) inflation, and productivity growth. Changes in Part B are also due to updated information on actual spending, changes to beneficiary enrollment, and other modeling improvements.

**Medicaid.** Economic and technical revisions reduce projected Federal outlays for Medicaid by \$2 billion in 2018 relative to the Budget estimates, but increase outlays by \$73 billion from 2019 to 2028 due to higher economic factors including CPI, as well as technical adjustments for updated Federal matching rates and recent State Medicaid expansions.

**Social Security.** Estimating changes reduce outlays for the Social Security trust funds by \$4 billion in 2018 and by an additional \$60 billion over the following 10 years. The reductions are the net effect of decreases in both Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) outlays reflecting continuing trends in actual experience through 2017 and the first half of 2018, partially offset by increases due to the higher forecast for the CPI in the MSR, which results in higher cost-of-living adjustments (COLAs) in the early years. The reductions in OASI are primarily due to revised expectations for the ages at which retired workers start receiving benefits. The MSR estimates reflect the continuing shift to a later starting age for retired worker benefits based on experience through calendar year 2017. Decreases in DI are due to re-estimates of the path of projected disabled worker incidence rates reflecting assumed lower levels of disability applications based on emerging experience through June 2018.

**Veterans' Benefits.** Estimating changes increase outlays on net for veterans compensation and benefits by \$1 billion in 2018 and by an additional \$29 billion over the next 10 years. The increases are primarily due to technical revisions to workload projections, contract medical exam reimbursement costs, grant rates for original veterans compensation claims, and burial benefits. In addition, higher COLAs in early years further increased outlay estimates.

EXPENDITURES

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**Foreign Military Sales.** Estimating changes increase outlays by \$8 billion in 2018 and decrease outlays by \$16 billion from 2019 to 2028; the revisions reflect the latest military sales volumes and projections based on year-to-date actuals.

**Commodity Credit Corporation.** Outlays for the Commodity Credit Corporation decrease by \$15 billion from 2019 to 2028 due to revisions for current spending data and higher-than-expected commodity prices, which reduce payments from the Agriculture Loss Coverage program and the Price Loss Coverage program.

**Earned Income Tax Credit (EITC).** Economic and technical changes increase outlays for the earned income tax credit by \$2 billion in 2018 and by \$14 billion over the next 10 years due to higher assumed wage growth over the period, model improvements, and the incorporation of year-to-date actuals.

**Child Tax Credit (CTC).** Technical changes decrease outlays for the CTC by \$11 billion from 2019 to 2028 due to a revision in the estimates of the Budget proposal to require a Social Security Number valid for work in order to claim the CTC and the EITC, to more accurately reflect the impacts of the proposal after the enactment of Public Law 115-97, the Tax Cuts and Jobs Act. In addition, economic and technical revisions, including higher assumed wage growth over the period, model improvements, and the incorporation of year-to-date actuals, offset those decreases slightly.

**Crime Victims Fund.** Outlays for the Crime Victims Fund decrease by \$9 billion from 2019 to 2023 relative to the Budget. The decrease reflects a downward technical adjustment to spending based on year-to-date outlays. This trend is expected to continue in the near term, with lower spending on crime victims' programs relative to the Budget estimate.

**Risk Corridors.** As described in the February 26, 2018 letter from the Director of the Office of Management and Budget to the Congress, subsequent to submission of the 2019 Budget, the Department of Health and Human Services determined that its accounting treatment of the Risk Corridors program required adjustments at the conclusion of the three-year program. The MSR incorporates the accounting changes, and reflects Risk Corridors "payments out" capped by the amount of "payments in." These technical changes decrease outlays for the Risk Corridors program by \$12 billion in 2018.

**Net Interest.** Excluding the debt service associated with enacted legislation and policy changes, outlays for net interest are projected to increase by \$11 billion in 2018 and by \$161 billion over the next 10 years. The majority of the increase is the result of revised economic assumptions, including higher projections for Treasury interest rates and higher growth in the CPI. Technical revisions are primarily due to updating for year-to-date actuals.

**Table 5. CHANGES IN OUTLAYS**

(In billions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
2019 Budget estimate .....	4,214	4,407	4,596	4,754	4,941	5,160	5,348	5,526	5,748	5,955	6,181		
Changes due to enacted legislation and policy changes:													
Emergency supplemental appropriations .....	13	12	11	5	*	*	*	*	*	*	.....	28	28
2018 Discretionary appropriations ....	78	41	14	5	2	1	*	*	*	*	.....	62	63
Other enacted legislation .....	-*	23	17	8	9	10	11	17	-12	-18	16	67	82
Policy changes to account for enacted legislation .....	.....	10	39	58	63	64	64	63	61	61	60	234	543
Debt service .....	1	4	8	11	14	17	20	23	26	28	31	54	182
Subtotal, enacted legislation and policy changes .....	91	90	88	86	89	92	97	104	76	71	106	445	899
Changes due to reestimates:													
Discretionary appropriations:													
Defense base programs .....	-37	-5	3	3	1	*	-1	-1	-1	-1	-1	2	-4
Non-defense base programs .....	-28	2	7	5	2	1	*	-1	-1	-1	-1	18	15
Emergency/Disaster and other adjustments <sup>1</sup> .....	-23	-8	-10	2	15	8	7	4	1	.....	.....	7	19
Overseas contingency operations ...	1	.....	*	*	*	.....	*	*	.....	.....	.....	*	*
Subtotal, discretionary appropriations .....	-87	-11	-1	10	19	9	7	2	-1	-2	-3	27	30
Medicare .....	1	-2	-7	-9	-15	-14	-13	-21	13	19	-27	-47	-76
Medicaid .....	-2	4	6	6	6	7	7	8	9	10	10	29	73
Social Security .....	-4	-5	-5	-6	-6	-6	-6	-6	-6	-7	-7	-29	-60
Veterans' benefits .....	1	1	2	2	3	3	3	3	4	4	5	11	29
Foreign military sales .....	8	-7	4	3	1	1	-2	*	-5	-4	-7	1	-16
Commodity Credit Corporation .....	.....	-2	-1	-2	-2	-1	-1	-1	-1	-1	-1	-9	-15
Earned income tax credit .....	2	*	1	1	1	*	*	1	2	4	5	3	14
Child tax credit .....	.....	1	-1	-1	-1	-2	-2	-2	-2	-1	-2	-3	-11
Crime Victims Fund .....	.....	-4	-3	-2	.....	.....	.....	.....	.....	.....	.....	-9	-9
Risk corridors .....	-12	.....	*	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Other programs <sup>2</sup> .....	-9	10	-1	-1	-2	-5	-3	.....	1	1	1	2	2
Net interest <sup>3</sup> .....	11	25	15	10	11	15	17	16	15	17	19	76	161
Subtotal, reestimates .....	-93	13	8	11	12	7	8	2	30	39	-8	51	123
Total change in outlays .....	-2	103	96	97	101	99	105	107	105	110	98	497	1,022
Mid-Session estimate .....	4,212	4,510	4,692	4,851	5,042	5,259	5,452	5,632	5,854	6,065	6,279		

\*\$500 million or less.

<sup>1</sup> Includes emergency and disaster funding, and adjustments for program integrity, wildfire, CUREs, and net zero CHIMPs.

<sup>2</sup> Includes reestimates of the effect of standardizing to 12 monthly benefit payments.

<sup>3</sup> Includes debt service on all reestimates.

**SUMMARY TABLES**



SUMMARY TABLES

**Table S-1. BUDGET TOTALS<sup>1</sup>**  
 (In billions of dollars and as a percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
													2019- 2023	2019- 2028	
<b>Budget Totals in Billions of Dollars:</b>															
Receipts .....	3,316	3,322	3,424	3,616	3,841	4,090	4,385	4,703	4,973	5,245	5,517	5,821	19,356	45,616	
Outlays .....	3,982	4,212	4,510	4,692	4,851	5,042	5,259	5,452	5,632	5,854	6,065	6,279	24,354	53,637	
Deficit .....	665	890	1,085	1,076	1,011	952	875	749	659	608	549	458	4,999	8,021	
Debt held by the public .....	14,665	15,793	16,978	18,142	19,240	20,335	21,298	22,062	22,783	23,441	24,030	24,614			
Gross domestic product (GDP) ...	19,178	20,112	21,148	22,262	23,402	24,589	25,834	27,144	28,509	29,916	31,371	32,898			
<b>Budget Totals as a Percent of GDP:</b>															
Receipts .....	17.3%	16.5%	16.2%	16.2%	16.4%	16.6%	17.0%	17.3%	17.4%	17.5%	17.6%	17.7%	16.5%	17.0%	
Outlays .....	20.8%	20.9%	21.3%	21.1%	20.7%	20.5%	20.4%	20.1%	19.8%	19.6%	19.3%	19.1%	20.8%	20.2%	
Deficit .....	3.5%	4.4%	5.1%	4.8%	4.3%	3.9%	3.4%	2.8%	2.3%	2.0%	1.7%	1.4%	4.3%	3.2%	
Debt held by the public .....	76.5%	78.5%	80.3%	81.5%	82.2%	82.7%	82.4%	81.3%	79.9%	78.4%	76.6%	74.8%			

<sup>1</sup> Outlays and deficits for 2018 through 2028 are standardized to 12 monthly benefit payments, as shown on Table S-4.

**Table S-2. EFFECT OF BUDGET PROPOSALS ON PROJECTED DEFICITS**  
 (Deficit increases (+) or decreases (-) in billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
													2019-2023	2019-2028
<b>Projected deficits in the pre-policy baseline <sup>1</sup></b>	<b>665</b>	<b>890</b>	<b>1,127</b>	<b>1,148</b>	<b>1,169</b>	<b>1,181</b>	<b>1,189</b>	<b>1,188</b>	<b>1,220</b>	<b>1,310</b>	<b>1,375</b>	<b>1,469</b>	<b>5,814</b>	<b>12,374</b>
Percent of GDP	3.5%	4.4%	5.3%	5.2%	5.0%	4.9%	4.7%	4.4%	4.4%	4.5%	4.5%	4.6%		
<b>Proposals in the 2019 Mid-Session Review:</b>														
<b>Changes to mandatory spending and receipts:</b>														
Repeal and replace Obamacare			3	16	-30	-44	-59	-76	-94	-113	-138	-162	-114	-696
Support at least \$1 trillion in private/public infrastructure investment			45	11	18	25	31	29	20	12	5	2	130	199
Provide paid parental leave			1	1	2	2	2	2	2	2	2	2	3	7
Reform the welfare system			-21	-26	-28	-28	-30	-31	-31	-32	-33	-32	-133	-291
Reform Federal student loans			-6	-12	-16	-19	-22	-24	-25	-26	-27	-27	-75	-203
Reduce improper payments Government-wide			*	-1	-2	-3	-6	-6	-12	-22	-40	-59	-11	-151
Reform disability programs			-1	-2	-2	-2	-2	-5	-8	-12	-17	-22	-9	-72
Reform retirement and health benefits for Federal employees			-4	-3	-4	-5	-8	-10	-11	-14	-15	-16	-24	-90
Limit Farm Bill subsidies and make other agricultural reforms			-1	-4	-5	-6	-6	-7	-7	-7	-7	-7	-7	-58
Eliminate wasteful spending in Medicare and improve drug pricing and payment policies <sup>2</sup>			-3	-13	-18	-25	-30	-32	-37	-41	-45	-51	-89	-294
Other spending reductions and program reforms <sup>3</sup>			-14	-24	-19	-13	-18	-22	-18	-31	-18	-61	-87	-237
Total, changes to mandatory spending and receipts			-2	-55	-104	-119	-146	-179	-220	-284	-331	-433	-427	-1,874
<b>Reprioritize discretionary spending:</b>														
Eliminate the defense sequester and raise the cap on defense discretionary spending			3	81	110	123	129	107	96	93	89	88	446	920
Reorganize Government and apply two-penny plan to non-defense discretionary spending														
Phase down the use of Overseas Contingency Operations funding			-13	-8	-24	-51	-71	-95	-121	-146	-171	-196	-168	-898
Provide 2018 emergency funding and align emergency and disaster funding with the ten-year average <sup>4</sup>			-5	-35	-54	-61	-65	-73	-78	-81	-83	-86	-220	-620
Total, reprioritize discretionary spending			-20	-39	-55	-70	-88	-99	-108	-115	-119	-122	-272	-834
Debt service and indirect interest effects			-35	-1	-22	-60	-95	-159	-210	-250	-284	-316	-214	-1,433
Total changes to spending and receipts in the 2019 Mid-Session Review			*	-1	-2	-5	-10	-28	-40	-57	-77	-101	-36	-339
Effect of post-policy boost to economic growth			-*	-37	-58	-132	-189	-259	-366	-471	-590	-693	-850	-3,646
Total deficit reduction in the 2019 Mid-Session Review <sup>5</sup>			-*	-42	-72	-158	-229	-314	-438	-561	-701	-826	-1,011	-4,352
<b>Resulting deficits in the 2019 Mid-Session Review</b>	<b>665</b>	<b>890</b>	<b>1,085</b>	<b>1,076</b>	<b>1,011</b>	<b>952</b>	<b>875</b>	<b>749</b>	<b>659</b>	<b>608</b>	<b>549</b>	<b>458</b>	<b>4,999</b>	<b>8,021</b>
Percent of GDP	3.5%	4.4%	5.1%	4.8%	4.3%	3.9%	3.4%	2.8%	2.3%	2.0%	1.7%	1.4%		
* \$500 million or less.														

<sup>1</sup> Includes adjustments to standardize the number of benefit payments in each year. See Table S-3 for more information on the baseline.  
<sup>2</sup> Includes the following categories of proposals on Table S-6: Address fraud and abuse in Medicare, Eliminate wasteful spending on Government-imposed provider burdens in Medicare, Eliminate wasteful Federal spending, Medicare drug pricing and payment improvements, Improve the Medicare appeals system, and Medicare interactions.  
<sup>3</sup> Includes interaction between 2019 Mid-Session Review proposals and the adjustment to standardize the number of benefit payments in each year.  
<sup>4</sup> The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) requires the baseline for discretionary appropriations, including disaster and emergency spending, to reflect the most recent enacted levels, extended through the budget window with adjustments for inflation. This line represents the effect of providing needed emergency funding for 2018 and then aligning emergency and disaster funding with the average of funding provided over the previous ten years, relative to the inflated spending levels in the BBEDCA baseline.  
<sup>5</sup> Includes differences between baseline and policy estimates of the outlay effects of mandatory sequestration.

SUMMARY TABLES

**Table S-3. BASELINE BY CATEGORY<sup>1</sup>**  
 (In billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
													2019- 2023	2019- 2028
<b>Outlays:</b>														
Discretionary programs:														
Defense .....	590	613	677	675	672	678	689	701	718	735	753	771	3,392	7,070
Non-defense .....	610	660	724	708	718	728	743	764	784	803	821	839	3,620	7,632
Subtotal, discretionary programs ...	1,200	1,274	1,401	1,383	1,391	1,406	1,432	1,465	1,502	1,538	1,574	1,611	7,012	14,701
Mandatory programs:														
Social Security .....	939	982	1,042	1,104	1,169	1,238	1,313	1,392	1,474	1,560	1,649	1,744	5,866	13,685
Medicare .....	591	586	646	690	742	839	872	902	1,013	1,092	1,169	1,342	3,790	9,308
Medicaid .....	375	399	424	441	463	490	520	552	586	628	665	705	2,339	5,475
Exchange subsidies (including Basic Health Program) .....	39	52	49	49	50	53	55	58	60	62	65	68	255	569
Other mandatory programs .....	574	566	593	610	627	665	665	666	698	749	771	830	3,160	6,874
Subtotal, mandatory programs .....	2,519	2,575	2,754	2,894	3,051	3,286	3,426	3,570	3,831	4,090	4,319	4,689	15,410	35,910
Net interest .....	263	322	395	472	538	604	669	724	769	815	863	912	2,679	6,762
Total outlays .....	3,982	4,171	4,550	4,749	4,980	5,296	5,526	5,758	6,103	6,443	6,757	7,212	25,101	57,374
<b>Receipts:</b>														
Individual income taxes .....	1,587	1,685	1,704	1,800	1,914	2,050	2,203	2,359	2,513	2,691	2,864	3,041	9,673	23,141
Corporation income taxes .....	297	204	225	254	280	317	377	423	447	433	427	440	1,454	3,624
Social insurance and retirement receipts:														
Social Security payroll taxes .....	851	855	911	950	1,005	1,061	1,116	1,178	1,241	1,311	1,377	1,459	5,043	11,608
Medicare payroll taxes .....	256	261	277	289	307	325	343	363	383	405	427	453	1,542	3,572
Unemployment insurance .....	46	45	45	46	47	47	47	48	49	51	53	56	231	488
Other retirement .....	10	10	11	11	12	12	13	14	14	15	16	17	59	135
Excise taxes .....	84	92	98	107	110	114	110	133	126	130	134	126	539	1,188
Estate and gift taxes .....	23	23	17	18	20	21	23	25	27	28	29	30	100	239
Customs duties .....	35	38	40	42	44	45	46	47	49	51	53	55	217	470
Deposits of earnings, Federal Reserve System .....	81	72	53	53	55	59	64	68	74	79	84	90	284	679
Other miscellaneous receipts .....	48	37	46	43	43	45	46	48	50	52	52	54	224	479
Total receipts .....	3,316	3,322	3,427	3,615	3,837	4,097	4,388	4,705	4,973	5,245	5,515	5,821	19,364	45,622
<b>Deficit .....</b>	<b>665</b>	<b>849</b>	<b>1,123</b>	<b>1,134</b>	<b>1,143</b>	<b>1,199</b>	<b>1,139</b>	<b>1,054</b>	<b>1,130</b>	<b>1,199</b>	<b>1,241</b>	<b>1,391</b>	<b>5,737</b>	<b>11,752</b>
Net interest .....	263	322	395	472	538	604	669	724	769	815	863	912	2,679	6,762
Primary deficit .....	403	527	728	662	605	595	469	330	361	384	378	479	3,058	4,990
On-budget deficit .....	715	853	1,122	1,114	1,115	1,160	1,084	985	1,046	1,111	1,140	1,285	5,595	11,162
Off-budget deficit/surplus (-) .....	-49	-4	1	20	28	38	55	69	84	88	101	107	142	590

**Table S-3. BASELINE BY CATEGORY <sup>1</sup>—Continued**  
 (In billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
													2019– 2023	2019– 2028
<b>Memorandum, totals with pre-policy economic assumptions and standardized to 12 monthly benefit payments:<sup>2</sup></b>														
Receipts .....	3,316	3,322	3,422	3,602	3,812	4,059	4,336	4,637	4,889	5,141	5,392	5,672	19,230	44,961
Outlays .....	3,982	4,212	4,550	4,749	4,981	5,240	5,524	5,825	6,108	6,451	6,767	7,141	25,044	57,335
Deficit .....	665	890	1,127	1,148	1,169	1,181	1,189	1,188	1,220	1,310	1,375	1,469	5,814	12,374
<b>Memorandum, budget authority for discretionary programs:</b>														
Defense .....	634	701	722	652	668	684	701	718	736	754	772	791	3,428	7,197
Non-defense .....	586	722	724	672	687	704	721	738	756	774	793	812	3,507	7,379
Total, discretionary budget authority ...	1,220	1,423	1,445	1,324	1,355	1,388	1,422	1,456	1,491	1,528	1,564	1,602	6,935	14,576

<sup>1</sup> Baseline estimates are on the basis of the economic assumptions shown in Table S-9, which incorporate the effects of the Administration's fiscal policies. Baseline totals reflecting current-law economic assumptions are shown in a memorandum bank.

<sup>2</sup> When October 1 falls on a weekend, certain mandatory benefit payments are accelerated to the previous business day, and as a result certain fiscal years can have 11 or 13 benefit payments rather than the normal 12 payments.

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**Table S-4. PROPOSED BUDGET BY CATEGORY**

(In billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
													2019-2023	2019-2028
<b>Outlays:</b>														
Discretionary programs:														
Defense .....	590	613	679	726	735	746	760	743	744	754	766	781	3,647	7,435
Non-defense .....	610	660	687	650	626	583	558	543	528	515	504	495	3,103	5,688
Subtotal, discretionary programs .....	1,200	1,274	1,366	1,376	1,361	1,329	1,318	1,286	1,272	1,269	1,270	1,276	6,750	13,123
Mandatory programs:														
Social Security .....	939	982	1,042	1,103	1,167	1,236	1,310	1,389	1,471	1,556	1,645	1,741	5,858	13,660
Medicare .....	591	586	629	656	700	790	816	842	948	1,021	1,103	1,239	3,592	8,745
Medicaid and Market-Based Health Care Grant .....	375	399	419	487	479	495	513	530	548	566	582	597	2,393	5,215
Exchange subsidies (including Basic Health Program) .....	39	52	48	11	.....	.....	.....	.....	.....	.....	.....	.....	58	58
Other mandatory programs .....	574	556	569	578	595	631	625	621	647	674	675	696	2,998	6,311
Allowance for infrastructure initiative .....	.....	.....	45	11	18	25	31	29	19	11	4	1	129	193
Subtotal, mandatory programs .....	2,519	2,575	2,751	2,846	2,959	3,176	3,295	3,411	3,633	3,828	4,010	4,274	15,028	34,183
Net interest .....	263	322	393	469	531	593	651	695	728	757	786	810	2,637	6,413
Total outlays .....	3,982	4,171	4,510	4,692	4,851	5,098	5,264	5,392	5,632	5,854	6,065	6,360	24,415	53,718
<b>Receipts:</b>														
Individual income taxes .....	1,587	1,685	1,705	1,802	1,917	2,054	2,208	2,365	2,521	2,699	2,873	3,050	9,687	23,195
Corporation income taxes .....	297	204	225	254	280	317	377	423	447	433	427	440	1,454	3,624
Social insurance and retirement receipts:														
Social Security payroll taxes .....	851	855	911	950	1,005	1,061	1,115	1,178	1,241	1,311	1,377	1,459	5,042	11,607
Medicare payroll taxes .....	256	261	277	290	307	325	343	363	383	405	427	453	1,542	3,573
Unemployment insurance .....	46	45	45	46	47	50	50	50	52	53	56	59	237	507
Other retirement .....	10	10	11	13	14	17	20	23	25	27	28	29	75	206
Excise taxes .....	84	92	98	107	110	98	94	116	108	111	114	105	507	1,060
Estate and gift taxes .....	23	23	17	18	20	21	23	25	27	28	29	30	100	239
Customs duties .....	35	38	40	42	43	44	45	47	48	50	52	54	215	466
Deposits of earnings, Federal Reserve System .....	81	72	53	54	56	60	65	69	74	80	85	91	287	686
Other miscellaneous receipts .....	48	37	46	43	43	45	46	48	50	52	52	54	225	481
Allowance for Obamacare repeal and replacement .....	.....	.....	-3	-4	-2	-2	-2	-2	-3	-3	-3	-3	-14	-29
Total receipts .....	3,316	3,322	3,424	3,616	3,841	4,090	4,385	4,703	4,973	5,245	5,517	5,821	19,356	45,616
<b>Deficit</b> .....	<b>665</b>	<b>849</b>	<b>1,085</b>	<b>1,076</b>	<b>1,011</b>	<b>1,008</b>	<b>879</b>	<b>689</b>	<b>659</b>	<b>608</b>	<b>549</b>	<b>539</b>	<b>5,059</b>	<b>8,103</b>
Net interest .....	263	322	393	469	531	593	651	695	728	757	786	810	2,637	6,413
Primary deficit/surplus (-) .....	403	527	693	607	479	415	228	-6	-69	-149	-237	-271	2,422	1,690
On-budget deficit .....	715	853	1,086	1,059	986	973	828	625	580	526	454	438	4,933	7,556
Off-budget deficit/surplus (-) .....	-49	-4	-1	17	24	35	51	64	79	82	95	101	126	547

**Table S-4. PROPOSED BUDGET BY CATEGORY—Continued**  
 (In billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
													2019–2023	2019–2028	
<b>Memorandum, totals standardized to 12 monthly benefit payments:<sup>1</sup></b>															
Receipts .....	3,316	3,322	3,424	3,616	3,841	4,090	4,385	4,703	4,973	5,245	5,517	5,821	19,356	45,616	
Outlays .....	3,982	4,212	4,510	4,692	4,851	5,042	5,259	5,452	5,632	5,854	6,065	6,279	24,354	53,637	
Deficit .....	665	890	1,085	1,076	1,011	952	875	749	659	608	549	458	4,999	8,021	
<b>Memorandum, budget authority for discretionary programs:</b>															
Defense .....	634	701	716	733	743	760	778	737	752	768	784	800	3,730	7,571	
Non-defense .....	586	722	542	534	522	502	492	481	470	461	452	443	2,592	4,899	
Total, discretionary budget authority .....	1,220	1,423	1,258	1,267	1,265	1,262	1,270	1,218	1,222	1,229	1,236	1,243	6,322	12,470	
<b>Memorandum, repeal &amp; replace Obamacare--Medicaid and other outlays for health care coverage:</b>															
Medicaid .....	375	399	419	367	356	369	384	399	413	428	441	453	1,896	4,030	
Exchange Subsidies (including Basic Health Program) ...	39	52	48	11	.....	.....	.....	.....	.....	.....	.....	.....	58	58	
Market-Based Health Care Grant .....	.....	.....	.....	120	123	126	128	131	134	138	141	144	497	1,185	
Total, outlays .....	414	451	467	498	479	495	513	530	548	566	582	597	2,451	5,274	

<sup>1</sup> When October 1 falls on a weekend, certain mandatory benefit payments are accelerated to the previous business day, and as a result certain fiscal years can have 11 or 13 benefit payments rather than the normal 12 payments.

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**Table S-5. PROPOSED BUDGET BY CATEGORY AS A PERCENT OF GDP**  
 (As a percent of GDP)

	Totals													
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019- 2023	2019- 2028
<b>Discretionary programs:</b>														
Defense .....	3.1	3.1	3.2	3.3	3.1	3.0	2.9	2.7	2.6	2.5	2.4	2.4	3.1	2.8
Non-defense .....	3.2	3.3	3.2	2.9	2.7	2.4	2.2	2.0	1.9	1.7	1.6	1.5	2.7	2.2
Subtotal, discretionary programs .....	6.3	6.3	6.5	6.2	5.8	5.4	5.1	4.7	4.5	4.2	4.0	3.9	5.8	5.0
<b>Mandatory programs:</b>														
Social Security .....	4.9	4.9	4.9	5.0	5.0	5.0	5.1	5.1	5.2	5.2	5.2	5.3	5.0	5.1
Medicare .....	3.1	2.9	3.0	2.9	3.0	3.2	3.2	3.1	3.3	3.4	3.5	3.8	3.1	3.2
Medicaid and Market-Based Health Care Grant .....	2.0	2.0	2.0	2.2	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.8	2.0	2.0
Exchange subsidies (including Basic Health Program) .....	0.2	0.3	0.2	*	.....	.....	.....	.....	.....	.....	.....	.....	0.1	*
Other mandatory programs .....	3.0	2.8	2.7	2.6	2.5	2.6	2.4	2.3	2.3	2.3	2.2	2.1	2.6	2.4
Allowance for infrastructure initiative .....	.....	.....	0.2	0.1	0.1	0.1	0.1	0.1	*	*	*	*	0.1	0.1
Subtotal, mandatory programs .....	13.1	12.8	13.0	12.8	12.6	12.9	12.8	12.6	12.7	12.8	12.8	13.0	12.8	12.8
Net interest .....	1.4	1.6	1.9	2.1	2.3	2.4	2.5	2.6	2.6	2.5	2.5	2.5	2.2	2.4
Total outlays .....	20.8	20.7	21.3	21.1	20.7	20.7	20.4	19.9	19.8	19.6	19.3	19.3	20.8	20.2
<b>Receipts:</b>														
Individual income taxes .....	8.3	8.4	8.1	8.1	8.2	8.4	8.5	8.7	8.8	9.0	9.2	9.3	8.3	8.6
Corporation income taxes .....	1.5	1.0	1.1	1.1	1.2	1.3	1.5	1.6	1.6	1.4	1.4	1.3	1.2	1.3
Social insurance and retirement receipts: Social Security payroll taxes .....	4.4	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.4	4.4	4.4	4.4	4.3	4.3
Medicare payroll taxes .....	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.3	1.3
Unemployment insurance .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other retirement .....	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Excise taxes .....	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4
Estate and gift taxes .....	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Customs duties .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Deposits of earnings, Federal Reserve System .....	0.4	0.4	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3
Other miscellaneous receipts .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Allowance for Obamacare repeal and replacement .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total receipts .....	17.3	16.5	16.2	16.2	16.4	16.6	17.0	17.3	17.4	17.5	17.6	17.7	16.5	17.0
<b>Deficit</b> .....	<b>3.5</b>	<b>4.2</b>	<b>5.1</b>	<b>4.8</b>	<b>4.3</b>	<b>4.1</b>	<b>3.4</b>	<b>2.5</b>	<b>2.3</b>	<b>2.0</b>	<b>1.7</b>	<b>1.6</b>	<b>4.4</b>	<b>3.2</b>
Net interest .....	1.4	1.6	1.9	2.1	2.3	2.4	2.5	2.6	2.6	2.5	2.5	2.5	2.2	2.4
Primary deficit/surplus (-) .....	2.1	2.6	3.3	2.7	2.0	1.7	0.9	*	-0.2	-0.5	-0.8	-0.8	2.1	0.8
On-budget deficit .....	3.7	4.2	5.1	4.8	4.2	4.0	3.2	2.3	2.0	1.8	1.4	1.3	4.3	3.0
Off-budget deficit/surplus (-) .....	-0.3	*	*	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.1	0.2
<b>Memorandum, totals standardized to 12 monthly benefit payments:</b>														
Receipts .....	17.3	16.5	16.2	16.2	16.4	16.6	17.0	17.3	17.4	17.5	17.6	17.7	16.5	17.0
Outlays .....	20.8	20.9	21.3	21.1	20.7	20.5	20.4	20.1	19.8	19.6	19.3	19.1	20.8	20.2
Deficit .....	3.5	4.4	5.1	4.8	4.3	3.9	3.4	2.8	2.3	2.0	1.7	1.4	4.3	3.2

**Table S-5. PROPOSED BUDGET BY CATEGORY  
 AS A PERCENT OF GDP—Continued**  
 (As a percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
													2019-2019-	2023 2028
<b>Memorandum, budget authority for discretionary programs:</b>														
Defense .....	3.3	3.5	3.4	3.3	3.2	3.1	3.0	2.7	2.6	2.6	2.5	2.4	3.2	2.9
Non-defense .....	3.1	3.6	2.6	2.4	2.2	2.0	1.9	1.8	1.6	1.5	1.4	1.3	2.2	1.9
Total, discretionary budget authority .....	6.4	7.1	5.9	5.7	5.4	5.1	4.9	4.5	4.3	4.1	3.9	3.8	5.4	4.8
<b>Memorandum, repeal &amp; replace Obamacare-Medicaid and other outlays for health care coverage:</b>														
Medicaid .....	2.0	2.0	2.0	1.6	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.6	1.5
Exchange Subsidies (including Basic Health Program) .....	0.2	0.3	0.2	*	.....	.....	.....	.....	.....	.....	.....	.....	0.1	*
Market-Based Health Care Grant .....	.....	.....	.....	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Total outlays .....	2.2	2.2	2.2	2.2	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.8	2.1	2.0

\*0.05 percent of GDP or less.



SUMMARY TABLES

**Table S-6. MANDATORY AND RECEIPT PROPOSALS**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
<b>Agriculture:</b>													
Farm Bill savings:													
Limit eligibility for agricultural commodity payments to \$500,000 Adjusted Gross Income (AGI) .....		-114	-89	-142	-135	-124	-120	-111	-102	-98	-90	-604	-1,125
Limit Crop Insurance eligibility to \$500,000 AGI .....			-56	-58	-67	-71	-77	-84	-92	-102	-117	-252	-724
Limit Crop Insurance premium subsidies .....			-2,231	-2,258	-2,482	-2,502	-2,540	-2,556	-2,587	-2,606	-2,609	-9,473	-22,371
Streamline conservation programs .....		-136	-189	-483	-876	-1,291	-1,689	-2,017	-2,121	-2,120	-2,120	-2,975	-13,042
Eliminate lower priority Farm Bill programs .....		-54	-112	-94	-98	-100	-100	-100	-100	-100	-100	-458	-958
Cap Crop Insurance companies' underwriting gains .....					-413	-420	-423	-426	-430	-437	-439	-833	-2,988
Eliminate Food for Progress food aid program .....		-166	-166	-166	-166	-166	-166	-166	-166	-166	-166	-830	-1,660
Eliminate farm payment limit loopholes .....		-149	-143	-141	-137	-135	-132	-130	-128	-127	-126	-705	-1,348
Eliminate Livestock Forage Program .....		-416	-421	-434	-444	-451	-456	-460	-462	-468	-471	-2,166	-4,483
Total Farm Bill savings .....		-1,035	-3,407	-3,776	-4,818	-5,260	-5,703	-6,050	-6,188	-6,224	-6,238	-18,296	-48,699
Establish Food Safety and Inspection Service (FSIS) user fee .....			-660	-660	-660	-660	-660	-660	-660	-660	-660	-2,640	-5,940
Establish Animal and Plant Health Inspection Service (APHIS) user fee .....		-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-115	-230
Establish Packers and Stockyards Program user fee .....		-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-115	-230
Establish Agricultural Marketing Service (AMS) user fee .....		-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-100	-200
Eliminate interest payments to electric & telecommunications utilities .....		-129	-127	-130	-130	-128	-129	-129	-129	-129	-129	-644	-1,289
Eliminate the Rural Economic Development Program .....													
Outyear mandatory effects of discretionary changes to the Conservation Stewardship Program .....			-27	-135	-180	-180	-180	-180	-180	-180	-180	-522	-1,422
Total, Agriculture .....		-1,230	-4,287	-4,767	-5,854	-6,294	-6,738	-7,085	-7,223	-7,259	-7,273	-22,432	-58,010
<b>Education:</b>													
Create single income-driven student loan repayment plan <sup>2</sup> .....		-2,429	-6,006	-9,365	-11,883	-13,885	-15,458	-16,317	-17,228	-17,695	-18,099	-43,568	-128,365

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
												2019-2023	2019-2028	
Eliminate subsidized student loans .....														
Eliminate Public Service Loan Forgiveness .....		-1,500	-2,580	-2,886	-2,973	-2,992	-3,008	-3,050	-3,096	-3,216	-3,254	-12,931	-28,555	
Eliminate account maintenance fee payments to guaranty agencies ..		-1,720	-2,979	-3,873	-4,411	-4,851	-5,303	-5,511	-5,597	-5,758	-5,859	-17,834	-45,862	
Move Iraq-Afghanistan Service Grants into the Pell Grant program .....		-656										-656	-656	
Expand Pell Grants to short-term programs .....						-1	-1	-1	-1	-1	-1	-1	-6	
Reallocate mandatory Pell funding to support short-term programs ..		7	27	34	40	46	48	49	49	50	51	154	401	
Total, Education .....		-7	-27	-34	-40	-46	-48	-49	-49	-50	-51	-154	-401	
Total, Energy .....		-6,305	-11,565	-16,124	-19,267	-21,729	-23,770	-24,879	-25,922	-26,670	-27,213	-74,990	-203,444	
Energy:														
Repeal borrowing authority for Western Area Power Administration (WAPA) .....		-450	-875	-175	575	275	110	-50	-50	-50	-50	-680	-740	
Divest WAPA transmission assets ..			-580									-580	-580	
Divest Southwestern Power Administration transmission assets .....			-15									-15	-15	
Divest Bonneville Power Administration transmission assets .....			-1,733	-488	-483	-493	-452	-386	-386	-386	-386	-3,197	-5,193	
Reform the laws governing how Power Marketing Administrations establish power rates .....		-162	-169	-173	-182	-188	-192	-199	-206	-211	-217	-874	-1,899	
Restart Nuclear Waste Fund Fee in 2021 .....				-359	-359	-364	-367	-364	-360	-360	-360	-1,082	-2,893	
Total, Energy .....		-612	-3,372	-1,195	-449	-770	-901	-999	-1,002	-1,007	-1,013	-6,398	-11,320	
Health and Human Services (HHS):														
Create child welfare flexible funding option .....				7	8	8	8	21	22	18	18	23	110	
Reform the title IV-E adoption assistance savings provision .....														
Provide tribal access to the Federal Parent Locator Service .....														
Reauthorize the Promoting Safe and Stable Families program (title IV-B) .....														
Expand the Regional Partnership Grants program .....		13	35	40	40	40	27	5				168	200	
Maintain Federal funding for key child care programs .....		222	222	222	222	222	222	222	222	222	222	1,110	2,220	



**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019- 2023	2019- 2028
Modify payment for drugs hospitals purchase through the 340B discount program and require a minimum level of charity care for hospitals to receive a payment adjustment related to uncompensated care <sup>3</sup>													
Reduce Wholesale Acquisition Cost (WAC)-based payments <sup>3</sup>													
Reform exclusivity for first generics to spur greater competition and access													
Total, Medicare	-60	-70	-70	-70	-90	-80	-80	-90	-100	-110	-130	-370	-880
Total, Medicaid	-840	-720	-720	-1,610	-2,960	-3,060	-1,920	-2,980	-3,230	-3,410	-4,500	-9,190	-25,230
Total, Medicaid and Medicare	-900	-790	-790	-2,280	-4,050	-4,140	-2,720	-4,070	-4,230	-4,520	-5,830	-9,560	-26,110
Test allowing State Medicaid programs to negotiate prices directly with drug manufacturers and set formulary for coverage			-5	-10	-15	-15	-15	-15	-15	-15	-15	-45	-120
Clarify definitions under the Medicaid Drug Rebate Program to prevent inappropriately low manufacturer rebates													
Total, Medicaid	-26	-26	-26	-26	-26	-31	-31	-36	-37	-37	-42	-135	-318
Total, Drug pricing and payment improvements	-26	-26	-31	-36	-41	-46	-46	-51	-52	-52	-57	-180	-438
Total, Addressing opioid payment improvements	-866	-751	-751	-1,646	-3,001	-3,106	-1,966	-3,031	-3,282	-3,462	-4,557	-9,370	-25,668
Prevent abusive prescribing by establishing HHS reciprocity with the Drug Enforcement Administration to terminate provider prescribing authority <sup>3</sup>													
Require plan participation in a program to prevent prescription drug abuse in Medicare Part D													
Provide comprehensive coverage of substance abuse treatment in Medicare <sup>3</sup>													
Track high prescribers and utilizers of prescription drugs in Medicaid <sup>3</sup>													
Require coverage of all medication assisted treatment options in Medicaid	35	25	25	-25	-75	-115	-130	-145	-150	-160	-170	-155	-910
Total, Addressing opioids	25	15	15	-35	-85	-125	-140	-155	-160	-170	-180	-205	-1,010

SUMMARY TABLES

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**  
 (Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
												2019-2023	2019-2028	
Eliminate wasteful Federal spending:														
Consolidate graduate medical education payments		-450	-1,220	-2,030	-2,950	-3,960	-4,940	-6,000	-7,190	-8,310	-9,610	-10,610	-46,660	
Reduce Medicare coverage of bad debts		-400	-1,320	-2,810	-3,730	-4,050	-4,310	-4,580	-4,870	-5,180	-5,480	-12,310	-36,730	
Modify payments to hospitals for uncompensated care			-5,720	-7,020	-7,890	-8,880	-9,840	-10,870	-11,920	-13,020	-14,190	-29,510	-89,350	
Address excessive payment for post-acute care providers by establishing a unified payment system based on patients' clinical needs rather than the site of care			-510	-1,780	-3,250	-5,480	-9,150	-10,240	-11,170	-12,170	-13,630	-19,190	-75,550	
Pay all hospital-owned physician offices located off-campus at the physician office rate			-1,240	-2,250	-2,510	-2,800	-3,480	-3,860	-4,270	-4,730	-5,240	-11,930	-38,510	
Expand basis for beneficiary assignment for Accountable Care Organizations (ACOs)				-10	-10	-10	-10	-20	-20	-20	-20	-30	-120	
Require prior authorization when physicians order certain services excessively relative to their peers <sup>2</sup>														
Reform and expand durable medical equipment competitive bidding														
Reform physician self-referral law to better support and align with alternative payment models and to address overutilization <sup>3</sup>														
Allow for Federal/State coordinated review of dual eligible Special Needs Plan marketing materials														
Improve appeals notifications for dually eligible individuals in Integrated Health Plans														
Clarify the Part D special enrollment period for dually eligible beneficiaries														
Give Medicare beneficiaries with high deductible health plans the option to make tax deductible contributions to Health Savings Accounts or Medical Savings Accounts <sup>1</sup>														
Total, Eliminate wasteful Federal spending		-2,620	-12,520	-17,400	-22,199	-27,335	-30,707	-34,461	-38,286	-42,244	-46,943	-82,074	-274,715	
				610	1,071	1,305	1,513	1,619	1,694	1,776	1,847	2,986	11,435	

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
												2019-2023	2019-2028	
Eliminate wasteful spending on Government-imposed provider burdens in Medicare:														
Improve and tailor the way Medicare educates beneficiaries about the program														
Eliminate the reporting burden and arbitrary requirements for use of electronic health records														
Eliminate arbitrary thresholds and other burdens to encourage participation in advanced Alternative Payment Models <sup>3</sup>														
Simplify and eliminate reporting burdens for clinicians participating in the Merit-based Incentive Payment System														
Tailor the frequency of skilled nursing facility surveys to more efficiently use resources and alleviate burden for top-performing nursing homes														
Eliminate the unnecessary requirement of a face-to-face provider visit for durable medical equipment														
Total, Eliminate wasteful spending on Government-imposed provider burdens in Medicare														
Address fraud and abuse in Medicare:														
Suspend coverage and payment for questionable Part D prescriptions and incomplete clinical information														
Prevent abuse of Medicare coverage when another source has primary responsibility for prescription drug coverage														
Expand prior authorization to additional Medicare fee-for-service items at high risk of fraud, waste, and abuse <sup>3</sup>														

SUMMARY TABLES

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
Prevent fraud by enforcing reporting of enrollment changes through civil monetary penalties for providers and suppliers who fail to update enrollment records .....		-2	-2	-3	-3	-3	-3	-4	-4	-4	-4	-13	-32
Allow revocation and denial of provider enrollment based on affiliation with a sanctioned entity .....				-6	-6	-6	-6	-6	-6	-6	-11	-18	-53
Require clearinghouses and billing agents acting on behalf of Medicare providers and suppliers to enroll in the program .....													
Ensure providers that violate Medicare's safety requirements and have harmed patients cannot quickly re-enter the program .....													
Assess a penalty on physicians and practitioners who order services or supplies without proper documentation .....													
Clarify authority for the Healthcare Fraud Prevention Partnership .....													
Alter the Open Payments reporting and publication cycle .....													
Publish the National Provider Identifier for covered recipients in the Open Payments Program .....													
Improve the safety and quality of care by requiring accreditation organizations to publicly report Medicare survey and certification reports .....													
Total, Address fraud and abuse in Medicare .....		-42	-62	-79	-79	-89	-99	-100	-110	-110	-135	-351	-905
Medicare Appeals:													
Improve the Medicare appeals system *		112	112	112	112	112	112	112	112	112	112	560	1,120
Strengthen Medicaid operations and increase State flexibility:													
Allow States to apply asset test to modified adjusted gross income standard populations .....		-50	-100	-200	-210	-230	-240	-250	-270	-280	-300	-790	-2,130

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
												2019-2023	2019-2028	
Reduce maximum allowable home equity for Medicaid eligibility .....														
Require documentation of satisfactory immigration status before receipt of Medicaid benefits .....														
Increase limit on Medicaid copayments for non-emergency use of emergency department .....		-180	-190	-200	-210	-220	-230	-240	-250	-270	-280	-1,000	-2,270	
Define lottery winnings and other lump-sum payments as income for purpose of Medicaid eligibility .....		-50	-110	-120	-130	-130	-140	-150	-160	-170	-180	-540	-1,340	
Increase flexibility in the duration of section 1915(b) managed care waivers .....														
Provide a pathway to make permanent established Medicaid managed care waivers .....														
Total, Strengthen Medicaid operations and increase State flexibility .....		-280	-400	-520	-550	-580	-610	-640	-680	-720	-760	-2,330	-5,740	
Address wasteful spending, fraud and abuse in Medicaid:														
Continue Medicaid Disproportionate Share Hospital (DSH) allotment reductions .....														
Consolidate provider enrollment screening for Medicare, Medicaid, and CHIP .....									-6,520	-6,500	-6,480		-19,500	
Implement pre-payment controls to prevent inappropriate personal care services payments <sup>3</sup> .....														
Streamline the Medicaid terminations process .....														
Expand Medicaid Fraud Control Unit review to additional care settings <sup>3</sup> .....														
Prohibit Medicaid payments to public providers in excess of costs <sup>3</sup> .....														
Total, Address wasteful spending, fraud and abuse in Medicaid .....									-6,520	-6,500	-6,480		-19,500	



SUMMARY TABLES

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
												2019-2023	2019-2028	
<b>Other Health:</b>														
Reform medical liability <sup>1,10</sup>			-179	-695	-1,840	-3,206	-4,490	-6,017	-7,665	-8,547	-9,060	-9,825	-10,410	-51,524
Reduce the grace period for Exchange premiums <sup>1</sup>			-311										-1,242	-1,242
Permit federally-facilitated Exchange States to conduct Qualified Health Plan certification														
Prohibit governmental discrimination against health care providers that refuse to cover abortion														
Provide CMS Program Management implementation funding			12	150	38									
<b>Total, Other Health</b>			-1,098	-856	-1,802	-3,206	-4,490	-6,017	-7,665	-8,547	-9,060	-9,825	-11,452	-52,566
<b>Public Health:</b>														
Provide tax exemption for Indian Health Service (IHS) Health Professions scholarship and loan repayment programs in Return for Obligatory Service Requirement <sup>1</sup>		5	12	13	14	14	14	14	14	15	17	19	58	137
Medicare Interactions		184	393	491	550	616	663	707	742	784	832	882	2,234	5,962
Medicaid Interactions			146	252	367	472	557	657	743	843	958	1,237	1,237	4,995
<b>Total, Health and Human Services (HHS)</b>		-6,424	-16,985	-21,264	-28,253	-34,650	-38,225	-44,389	-55,745	-60,270	-66,719	-107,576	-372,924	
<b>Homeland Security:</b>														
Extend expiring Customs and Border Protection (CBP) fees										-779	-4,951			-5,730
Increase Customs user fees			-113	-126	-137	-148	-162	-176	-191	-206	-223	-214	-686	-1,696
Increase immigration user fees														
Establish Electronic Visa Update System user fee <sup>1</sup>														
Eliminate BrandUSA, make revenue available to CBP			60	66									126	126
Make full Electronic System for Travel Authorization (ESTA) receipts available to CBP <sup>1</sup>														
Expand Authority of the Aviation Security Capital Fund														
Establish an immigration services surcharge <sup>1</sup>		-453	-465	-479	-493	-507	-522	-538	-553	-569	-587	-2,397	-5,166	
Increase worksite enforcement penalties <sup>1</sup>		-13	-14	-15	-15	-15	-15	-15	-15	-15	-15	-72	-72	-147

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**  
 (Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
<b>Establish National Flood Insurance Program affordability assistance</b> <sup>6</sup>	1			11	21	32	44	58	74	86	90	65	417
Total, Homeland Security	-518	-539	-620	-635	-652	-669	-686	-700	-1,500	-5,677	-2,964	-12,196	
<b>Interior:</b>													
Cancel Southern Nevada Public Land Management Act (SNPLMA) balances	-83	-69	-78									-230	-230
Repeal enhanced geothermal payments to counties	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-20	-40
Permanently reauthorize the Federal Lands Recreation Enhancement Act (FLREA)													
Establish a Public Lands Infrastructure Fund	152	420	614	766	766	766	766	781	810	842	878	2,716	6,793
Total, Interior	65	347	532	762	762	760	762	777	806	838	874	2,466	6,523
<b>Justice:</b>													
Establish a definite annual funding level for the Crime Victims Fund		-4,224	-2,769	-2,180	-1,647	-200	-200	-200	-200	-200	-200	-11,020	-12,020
<b>Labor:</b>													
Establish a paid parental leave program:													
Provide paid parental leave benefits <sup>1,6,7</sup>	700	1,000	1,767	1,663	1,663	1,928	2,159	2,211	2,332	2,443	2,546	7,058	18,749
Establish an Unemployment Insurance (UI) solvency standard <sup>1,7</sup>				-489	-1,315	-1,887	-796	-1,399	-778	-1,025	-1,524	-3,691	-9,213
Improve UI program integrity <sup>1,7</sup>		-83	-176	-187	-186	-180	-173	-170	-173	-148	-178	-812	-1,654
Provide for Reemployment Services and Eligibility Assessments <sup>1,7</sup>				-71	-458	-440	-412	-388	-364	-398	-302	-1,425	-3,289
Total, Establish a paid parental leave program	617	753	633	-294	-294	-579	778	254	1,017	872	542	1,130	4,593
Improve Pension Benefit Guaranty Corporation (PBGC) solvency	32	74	-1,470	-1,663	-1,663	-1,760	-1,810	1,428	-5,128	-1,901	-1,936	-6,383	-15,730
Expand Foreign Labor Certification fees													
Reform the Federal Employees' Compensation Act (FECA)			-62	-7	-5	-5	-6	-6	-8	-8	-5	-84	-117
Reform the Trade Adjustment Assistance program	-40	-139	-219	-235	-167	-167	-71	-45	-53	-81	-110	-800	-1,160
Total, Labor	32	589	-863	-1,155	-2,197	-2,511	-1,109	1,631	-4,172	-1,118	-1,509	-6,137	-12,414
<b>Transportation:</b>													
Air Traffic Control:													
Reform Air Traffic Control <sup>1</sup>						15,510	17,146	18,038	18,996	19,996	21,016	31,820	127,012

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**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
Outlay savings from													
discretionary cap adjustment ..													
Reform Essential Air Service <sup>1</sup> .....					-8,681	-9,453	-9,829	-10,060	-10,173	-10,173	-10,173	-18,134	-68,542
Total, Transportation .....					61	1	2	2	1	2	2	62	71
Treasury:													
Provide authority for Bureau of Engraving and Printing to construct new facility <sup>1</sup> .....		-12	-32	-3	89	-360	-53	20	-3	-222	-3	-318	-579
Increase and extend guarantee fee charged by GSEs .....		-212	-967	-1,699	-2,350	-3,475	-4,258	-4,034	-3,398	-2,858	-2,401	-8,703	-25,652
Subject Financial Research Fund to appropriations with reforms to the Financial Stability Oversight Council and Office of Financial Research <sup>1,7</sup> .....		-1	33	-13	-18	-18	-18	-18	-18	-18	-18	-17	-107
Increase delinquent Federal non-tax debt collections .....		-32	-32	-32	-32	-32	-32	-32	-32	-32	-32	-160	-320
Increase and streamline recovery of unclaimed assets .....		-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-40	-80
Implement tax enforcement program integrity cap adjustment <sup>1</sup> .....		-152	-787	-1,825	-3,033	-4,330	-5,554	-6,416	-6,931	-7,270	-7,505	-10,127	-43,803
Discretionary outlays from tax enforcement program integrity cap adjustment (non-add) .....		320	693	1,040	1,386	1,737	1,850	1,865	1,875	1,885	1,893	5,176	14,544
Increase oversight of paid tax return preparers <sup>1</sup> .....		-21	-33	-38	-42	-45	-50	-55	-60	-68	-73	-179	-485
Provide more flexible authority for the Internal Revenue Service to address correctable errors <sup>1</sup> .....		-42	-61	-64	-67	-69	-72	-74	-77	-85	-89	-303	-700
Total, Treasury .....		-480	-1,887	-3,682	-5,461	-8,337	-10,045	-10,617	-10,827	-10,561	-10,129	-19,847	-71,726
Veterans Affairs (VA):													
Cap Post-9/11 GI Bill flight training programs at public schools .....		-43	-45	-46	-47	-49	-51	-53	-55	-57	-59	-230	-505
Extension of home loan fees .....													-356
Enhance burial benefits for veterans .....		2	2	2	2	2	2	2	3	3	3	10	23
Reinstate COLA round-down .....		-34	-92	-148	-207	-268	-281	-296	-311	-323	-336	-749	-2,296
Standardize and enhance VA Compensation and Pension benefit programs .....		-78	-80	-83	-85	-88	-90	-93	-95	-98	-99	-414	-1,187
Standardize and improve veteran vocational rehabilitation and education benefit programs .....		72	-20	-22	-25	-26	-33	-35	-37	-39	-41	-21	-206
Extend authority for securization of vendee loans .....		89	19	52	3	50	3	55	4	58	.....	213	333

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**  
 (Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
Extend housing assistance for homeless veterans and include permanent housing options		29										29	29
Total, Veterans Affairs		37	-216	-245	-359	-379	-450	-420	-491	-456	-1,186	-1,162	-4,165
<b>Corps of Engineers:</b>													
Divest Washington Aqueduct				-120									-120
Reform inland waterways financing		-178	-178	-178	-178	-178	-178	-178	-178	-178	-178	-890	-1,780
Reduce the Harbor Maintenance Tax 4.1		265	281	292	299	307	314	323	333	345	359	1,444	3,118
Total, Corps of Engineers		87	103	-6	121	129	136	145	155	167	181	434	1,218
<b>Environmental Protection Agency:</b>													
Expand use of pesticide licensing fees		5	4	4	4	4	3	2	1	1	1	1	29
<b>International Assistance Programs:</b>													
Transfer funds from Overseas Private Investment Corporation to Development Finance Institution													
<b>Office of Personnel Management (OPM):</b>													
Federal Employees Health Benefits (FEHB) Program:													
Provide OPM authority to incorporate provisions of the Anti-Kickback Act to the FEHB Program													
Modify the Government contribution to FEHB premiums				-192	-301	-321	-342	-363	-387	-412	-439	-814	-2,757
Modify existing statute on indemnity benefit plans in FEHB													
Provide tax preemption for Federal Employees Dental/Vision Program													
Total, Federal Employees Health Benefits (FEHB) Program				-192	-301	-321	-342	-363	-387	-412	-439	-814	-2,757
<b>Reform retirement benefits for Federal employees:</b>													
Increase employee contributions to 50% of cost, phased in at 1% per year 1			-2,267	-2,318	-4,718	-7,086	-8,942	-10,516	-11,822	-12,114	-12,153	-16,389	-71,936

SUMMARY TABLES

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
Eliminate Federal Employee Retirement System COLA; reduce Civil Service Retirement System COLA by 0.5% .....		-1,171	-1,877	-2,645	-3,480	-4,382	-5,353	-6,396	-7,509	-8,697	-9,961	-13,555	-51,471
Eliminate the Special Retirement Supplement .....		-497	-867	-1,274	-1,596	-1,818	-2,028	-2,290	-2,540	-2,762	-3,003	-6,052	-18,675
Change retirement calculation from high-3 years to high-5 years .....		-278	-341	-407	-477	-551	-625	-700	-780	-862	-947	-2,054	-5,968
Reduce the G-Fund interest rate .....		-1,961	-1,053	-1,935	-959	-950	-951	-1,032	-1,193	-1,308	-1,404	-6,858	-12,746
Loss of mandatory offsetting receipts from retirement proposals .....			9,606	11,786	14,436	16,447	18,176	19,815	20,124	20,297	20,462	52,275	151,149
Discretionary effect of retirement proposals .....			-5,858	-7,146	-8,219	-8,983	-9,498	-9,904	-9,605	-9,255	-8,911	-30,206	-77,379
Total, reform retirement benefits for Federal employees .....		-3,907	-2,657	-3,939	-5,013	-7,323	-9,221	-11,023	-13,325	-14,701	-15,917	-22,839	-87,026
Total, Office of Personnel Management .....		-3,907	-2,657	-4,131	-5,314	-7,644	-9,563	-11,386	-13,712	-15,113	-16,356	-23,653	-89,783
Other Independent Agencies:													
Federal Communications Commission:													
Enact Spectrum License User Fee .....			-50	-150	-300	-450	-500	-500	-500	-500	-500	-1,450	-3,950
Conduct spectrum auctions below 6 gigahertz .....				-300	-300							-600	-6,600
Total, Federal Communications Commission .....			-50	-450	-600	-450	-500	-500	-500	-500	-500	-2,050	-10,550
Restructure the Consumer Financial Protection Bureau .....			-147	-610	-656	-672	-704	-720	-737	-755	-773	-2,772	-6,461
Eliminate the Securities and Exchange Commission Reserve Fund .....													
Allow District of Columbia (DC) Courts to retain bar exam and application fees .....				-17	-41	-50	-50	-50	-50	-50	-50	-158	-408
Reform the Postal Service .....													
Divest Tennessee Valley Authority (TVA) transmission assets .....				-4,593	-4,586	-4,534	-4,438	-4,436	-4,392	-4,308	-4,254	-22,667	-44,495
Mandatory effects of agency eliminations .....			241	-3,760	-19	-19	-19	-19	-19	-19	-19	-3,576	-3,671
Total, Other Independent Agencies .....		-4,549	-9,423	-5,850	-5,693	-5,709	-5,711	-5,725	-5,698	-5,632	-11,596	-31,224	-65,586
												-1	-1

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**  
 (Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
												2019-2023	2019-2028	
<b>Cross-cutting reforms:</b>														
Repeal and replace Obamacare:														
Proposal modeled after the Graham-Cassidy-Heller- Johnson bill: 1		-2,885	-68,115	-83,950	-99,560	-105,675	-113,450	-127,255	-142,000	-161,245	-181,085	-370,185	-1,095,220	
Medicaid reforms														
Market-based Health Care Grant Program			146,000	146,000	157,000	168,000	179,000	190,000	190,000	210,000	220,000	617,000	1,606,000	
Other		14,580	-11,511	-43,259	-50,860	-52,514	-55,057	-57,744	-59,602	-62,480	-65,166	-143,562	-443,611	
Total, proposal modeled after the Graham- Cassidy-Heller-Johnson bill		11,695	66,375	8,792	6,581	9,812	10,493	5,001	-11,602	-13,725	-26,251	103,253	67,169	
Additional deficit reduction:														
Medicaid reforms			-3,800	-10,610	-19,320	-28,330	-37,735	-42,740	-48,245	-54,045	-58,940	-62,060	-303,765	
Market-based Health Care Grant Program			-26,000	-23,240	-31,417	-39,528	-47,573	-55,550	-62,458	-69,295	-76,058	-120,185	-421,119	
State implementation		1,000	750	250								2,000	2,000	
Other		-10,000	-21,000	-5,000								-36,750	-40,500	
Total, additional deficit reduction		-9,000	-50,050	-38,600	-50,737	-68,608	-86,058	-99,040	-101,453	-124,090	-155,748	-216,995	-763,384	
Total, Repeal and replace Obamacare		2,695	16,325	-29,809	-44,156	-68,797	-75,565	-94,039	-113,055	-137,815	-161,999	-113,742	-696,215	
<b>Reform welfare programs:</b>														
Reform the Supplemental Nutrition Assistance Program		-17,169	-18,521	-20,451	-20,468	-21,615	-22,213	-22,353	-23,686	-23,893	-23,157	-98,224	-213,526	
Reduce Temporary Assistance for Needy Families (TANF) block grant		-1,155	-1,435	-1,514	-1,552	-1,584	-1,600	-1,600	-1,600	-1,600	-1,600	-7,240	-15,240	
Eliminate the TANF Contingency Fund														
Get noncustodial parents to work		-545	-608	-608	-608	-608	-608	-608	-608	-608	-608	-2,977	-6,017	
Strengthen Child Support enforcement and establishment		4	5	7	8	10	9	11	13	14	15	34	96	
Establish a Child Support technology fund		-21	-40	-57	-67	-78	-85	-87	-90	-92	-99	-263	-716	
Eliminate Social Services Block Grant (SSBG)		63	-12	-20	-28	-37	-110	-120	-131	-194	-205	-34	-794	
Shift SSBG expenditures to Foster Care and Permanency		-1,324	-1,634	-1,697	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-8,055	-16,555	
Require Social Security Number (SSN) for Child Tax Credit & Earned Income Tax Credit		18	21	22	22	22	23	23	23	23	23	105	220	
Promote Welfare to Work Projects		-483	-3,776	-3,894	-3,998	-4,078	-4,252	-4,351	-4,452	-4,610	-4,696	-16,229	-38,590	
Total, Reform welfare programs		-20,612	-26,000	-28,212	-28,991	-29,668	-30,536	-30,785	-32,231	-32,660	-32,027	-132,883	-291,122	

SUMMARY TABLES

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
												2019-2023	2019-2028	
<b>Reform disability programs and test new approaches:</b>														
Improve SSI youth transition to work .....		-5	-28	6	46	21	-6	-35	-59	-80	-108	40	-248	
Simplify administration of the SSI program .....			-347	-86	-68	-50	-29	-18	-6	6	19	-551	-579	
Test new approaches to increase labor force participation .....		100	100	100	100	100	-2,384	-5,070	-9,171	-13,610	-18,632	500	-48,367	
Reduce 12 month retroactive Disability Insurance (DI) benefits to six months .....		-362	-669	-846	-992	-1,057	-1,126	-1,198	-1,268	-1,337	-1,401	-3,926	-10,256	
Create sliding scale for multi-recipient Supplemental Security .....														
Income (SSI) families .....		-588	-618	-636	-693	-661	-631	-702	-720	-738	-814	-3,196	-6,801	
Offset overlapping unemployment and disability payments <sup>1,7</sup> .....			-80	-211	-257	-281	-296	-309	-323	-339	-350	-829	-2,446	
Reinstate the reconsideration review application stage in 10 States .....		91	-76	-295	-424	-362	-354	-420	-469	-519	-579	-1,066	-3,407	
Eliminate Workers Compensation (WC) Reverse Offsets .....				-22	-22	-23	-25	-26	-28	-30	-31	-67	-207	
Change the representative fee and approval process .....			3	16	29	43	41	45	44	44	45	91	310	
Administrative Law Judge (ALJ) Reforms .....														
<b>Total, Reform disability programs and test new approaches .....</b>		-764	-1,715	-1,974	-2,281	-2,270	-4,810	-7,733	-12,000	-16,603	-21,851	-9,004	-72,001	
<b>Reduce improper payments:</b>														
<b>Government-wide .....</b>														
Provide additional debt collection authority for civil monetary penalties (CMPs) and assessments .....			-719	-1,482	-2,383	-4,288	-4,549	-9,652	-20,480	-38,024	-57,633	-8,872	-139,210	
Allow Government-wide use of CBP entry/exit data to prevent improper payments .....														
Authorize Social Security Administration (SSA) to use all collection tools to recover funds in certain scenarios .....				-1	-5	-13	-19	-25	-34	-39	-47	-19	-183	
Hold fraud facilitators liable for overpayments .....														
Increase overpayment collection threshold for Old Age, Survivors, and Disability Insurance .....		-11	-72	-91	-102	-124	-148	-167	-219	-233	-231	-400	-1,398	

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**  
 (Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
												2019- 2023	2019- 2028	
Exclude SSA debts from discharge in bankruptcy .....		-7	-15	-21	-25	-30	-30	-32	-34	-35	-37	-39	-98	-275
Allow SSA to use commercial database to verify real property .....		-26	-40	-50	-61	-62	-62	-70	-73	-77	-83	-83	-239	-604
Improve collection of pension information from States and localities .....	18	28	28	24	-441	-1,058	-1,505	-1,618	-1,534	-1,442	-1,332	-1,429	-1,429	-8,860
Total, Reduce improper payments .....	-27	-820	-820	-1,623	-3,022	-5,580	-6,321	-11,573	-22,383	-39,859	-59,373	-11,072	-150,581	
Implement an infrastructure initiative:														
Encourage increased State, local, and private infrastructure by awarding competitive incentive grants .....	1,000	5,000	3,407	2,851	1,058	399	300	245	200	145	45	49,065	50,000	100,000
Address the need for investment in rural infrastructure .....		15	140	770	2,475	4,327	5,135	3,972	2,220	784	202	7,727	20,040	
Support bold, innovative, and transformative projects .....		311	933	1,556	2,178	2,800	2,489	1,867	1,244	622	.....	7,778	14,000	
Expand existing Federal infrastructure credit programs ..		1,867	1,733	1,600	1,467	1,333	1,200	-53	-57	-61	-65	8,000	8,964	
Establish a Federal Capital Revolving Fund <sup>1</sup> .....		31	138	296	457	616	753	839	893	945	992	1,538	5,960	
Total, Implement an infrastructure initiative .....	44,574	11,351	18,073	25,135	29,377	31,225	29,377	20,120	11,750	5,435	1,924	130,358	198,964	
Authorize additional Afghan Special Immigrant Visas .....		22	25	26	23	22	23	20	18	18	19	118	216	
Eliminate allocations to the Housing Trust Fund and Capital Magnet Fund <sup>1</sup> .....		-263	-158	-227	-296	-357	-385	-399	-419	-426	-433	-1,301	-3,363	
Extend Joint Committee mandatory sequestration .....														
Lease Shared Secondary Licenses ..														
Improve clarity in worker classification and information reporting requirements <sup>1</sup> .....		-50	-55	-55	-60	-65	-70	-70	-80	-80	-85	-285	-670	
Total, Cross-cutting reforms .....	100	-100	-860	-43,545	-52,715	-65,090	-87,855	-124,010	-167,919	-221,502	-273,326	-136,343	-1,010,955	-205
<b>Total, mandatory and receipt proposals .....</b>	<b>32</b>	<b>-1,791</b>	<b>-55,257</b>	<b>-104,484</b>	<b>-120,400</b>	<b>-146,614</b>	<b>-177,448</b>	<b>-220,310</b>	<b>-284,006</b>	<b>-331,354</b>	<b>-435,659</b>	<b>-428,545</b>	<b>-1,877,322</b>	

Note: For receipt effects, positive figures indicate lower receipts. For outlay effects, positive figures indicate higher outlays. For net costs, positive figures indicate higher deficits.  
<sup>1</sup> The estimates for this proposal include effects on receipts. The receipt effects included in the totals above are as follows



SUMMARY TABLES

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
												2019-2023	2019-2028	
Give Medicare beneficiaries with high deductible health plans the option to make tax deductible contributions to Health Savings Accounts or Medical Savings Accounts .....														
Reform medical liability .....				610	1,071	1,285	1,493	1,599	1,674	1,746	1,807	2,966	11,285	
Reduce the grace period for Exchange premiums .....		-24	-222	-548	-987	-1,476	-2,067	-2,687	-3,079	-3,290	-3,475	-3,257	-17,855	
Provide tax exemption for Indian Health Service (IHS) Health Professions scholarship and loan repayment programs in Return for Obligatory Service Requirement .....	5	12	13	13	14	14	14	14	15	17	19	58	137	
Establish Electronic Visa Update System user fee .....	-25	-28	-31	-31	-34	-38	-42	-46	-52	-57	-64	-156	-417	
Make full Electronic System for Travel Authorization (ESTA) receipts available to CBP .....				-171	-177	-183	-189	-196	-202	-209	-216	-531	-1,543	
Establish an immigration services surcharge .....	-453	-465	-479	-479	-493	-507	-522	-538	-553	-569	-587	-2,397	-5,166	
Increase worksite enforcement penalties .....	-13	-14	-15	-15	-15	-15	-15	-15	-15	-15	-15	-72	-147	
Provide paid parental leave benefits .....					-977	-985	-1,016	-1,211	-1,319	-1,422	-1,517	-1,962	-8,447	
Establish an Unemployment Insurance (UI) solvency standard .....				-489	-1,315	-1,887	-796	-1,399	-778	-1,025	-1,524	-3,691	-9,213	
Improve UI program integrity .....			1	9	23	42	62	82	98	143	127	75	587	
Provide for Reemployment Services and Eligibility Assessments .....			2	15	46	94	160	223	294	306	443	157	1,583	
Reform Air Traffic Control .....					15,510	16,310	17,146	18,038	18,996	19,996	21,016	31,820	127,012	
Reform Essential Air Service .....					152	156	160	164	168	172	177	308	1,149	
Provide authority for Bureau of Engraving and Printing to construct new facility .....		-12	-32	-3	89	-360	-53	20	-3	-222	-3	-318	-579	
Subject Financial Research Fund to appropriations with reforms to the Financial Stability Oversight Council and Office of Financial Research <sup>1,7</sup> .....		-1	50	50	50	50	50	50	50	50	50	199	449	
Implement tax enforcement program integrity cap adjustment .....		-152	-787	-1,825	-3,033	-4,330	-5,554	-6,416	-6,931	-7,270	-7,505	-10,127	-43,803	
Increase oversight of paid tax return preparers .....		-17	-18	-21	-23	-25	-28	-31	-34	-38	-41	-104	-276	
Provide more flexible authority for the Internal Revenue Service to address correctable errors .....		-8	-12	-13	-14	-15	-16	-17	-18	-19	-21	-62	-153	
Reform inland waterways financing .....		-178	-178	-178	-178	-178	-178	-178	-178	-178	-178	-890	-1,780	
Reduce the Harbor Maintenance Tax .....	265	281	292	292	299	307	314	323	333	345	359	1,444	3,118	

**Table S-6. MANDATORY AND RECEIPT PROPOSALS—Continued**  
 (Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
Increase employee contributions to 50% of cost, phased in at 1% per year .....			-2,267	-2,318	-4,718	-7,086	-8,942	-10,516	-11,822	-12,114	-12,153	-16,389	-71,936
Proposal modeled after the Graham-Cassidy-Heller-Johnson Bill .....		3,390	3,951	2,225	2,357	2,403	2,437	2,687	2,911	2,976	3,210	14,326	28,547
Require Social Security Number (SSN) for Child Tax Credit & Earned Income Tax Credit .....		-483	-958	-985	-1,051	-1,116	-1,183	-1,257	-1,338	-1,416	-1,494	-4,593	-11,281
Offset overlapping unemployment and disability payments .....					3	6	13	19	26	32	36	9	135
Expand flexibility and broaden eligibility for Private Activity Bonds .....		31	138	296	457	616	753	839	893	945	992	1,538	5,960
Eliminate allocations to the Housing Trust Fund and Capital Magnet Fund .....			-62	-74	-73	-78	-82	-84	-85	-87	-89	-90	-804
Improve clarity in worker classification and information reporting requirements .....		100	-100										-205
Total receipt effects of mandatory proposals .....		2,235	-763	-3,639	6,978	3,000	1,917	-534	-951	-1,305	-752	7,811	6,186

<sup>2</sup> The single income-driven repayment plan proposal has sizable interactive effects with the proposals to eliminate subsidized loans and Public Service Loan Forgiveness. These effects, \$19.2 billion over 10 years, are included in the single income-driven repayment plan subtotal.

<sup>3</sup> Estimates were not available at the time of publication

<sup>4</sup> The FY 2019 Budget requests \$127 million in mandatory resources to support Medicare appeals adjudication at the Office of Medicare Hearings and Appeals and the Departmental Appeals Board. While the total mandatory request is \$127 million annually, the cost to the government is \$112 million annually, which reflects Medicare Part A and Part B contributions, net of premiums

<sup>5</sup> While this proposal increases government outlays as the program provides means-tested assistance to low-income policyholders, the National Flood Insurance Program is also accelerating premium increases on other policyholders that currently do not pay full-risk premiums.

<sup>6</sup> The paid parental leave proposal consists of \$27.196 billion in benefit and program administration costs, offset by \$8.447 billion in savings associated with increased State revenues.

<sup>7</sup> Net of income offsets.

<sup>8</sup> The proposal would allow the District of Columbia (DC) Courts to retain a portion of the bar examination and application fees it currently deposits into the DC Crime Victim's Compensation Fund. Retained fees are estimated at -\$360,000 annually beginning in 2019.

<sup>9</sup> The Federal Capital Revolving Fund is capitalized with \$10 billion in mandatory funds in 2019. Agency repayments to the fund are reflected as offsetting collections, which reduce the total outlays estimated from the fund over the 10-year window. However, the initial \$10 billion in capitalization funding is fully expended by 2023.

<sup>10</sup> In addition to the effects within HHS, the effects of the proposal include effects within OPM and Treasury.

SUMMARY TABLES

**Table S-7. PROPOSED DISCRETIONARY FUNDING LEVELS IN THE 2019 MID-SESSION REVIEW**

(Net budget authority in billions of dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals 2019- 2028
<b>Discretionary Caps and Outyear Funding Levels under Current Law:<sup>1</sup></b>											
Defense .....	647	576	590	605	620	635	651	667	684	701	6,375
Non-Defense .....	597	543	556	570	584	598	613	628	644	660	5,993
<b>Total, Base Current Law Caps .....</b>	<b>1,244</b>	<b>1,119</b>	<b>1,146</b>	<b>1,174</b>	<b>1,203</b>	<b>1,233</b>	<b>1,264</b>	<b>1,296</b>	<b>1,328</b>	<b>1,361</b>	<b>12,368</b>
<b>Proposed Funding Changes:<sup>2</sup></b>											
Defense .....		+137	+133	+135	+138	+92	+91	+91	+90	+89	+897
Non-Defense .....	-57	-14	-38	-62	-86	-110	-135	-160	-185	-210	-1,057
<b>Total, Base Cap Changes .....</b>	<b>-57</b>	<b>+123</b>	<b>+95</b>	<b>+74</b>	<b>+53</b>	<b>-18</b>	<b>-44</b>	<b>-70</b>	<b>-95</b>	<b>-121</b>	<b>-60</b>
<b>Proposed 2019 Funding and Outyear Caps:</b>											
Defense .....	647	713	723	740	758	727	742	758	774	790	7,372
Non-Defense .....	540	529	518	508	498	488	478	468	459	450	4,936
<b>Total, Proposed Base Caps .....</b>	<b>1,187</b>	<b>1,242</b>	<b>1,241</b>	<b>1,248</b>	<b>1,256</b>	<b>1,215</b>	<b>1,220</b>	<b>1,226</b>	<b>1,233</b>	<b>1,240</b>	<b>12,308</b>
<b>Additional Non-Defense (NDD) Cap Reductions for Budget Proposals:<sup>3</sup></b>											
Air Traffic Control Reform .....				-10	-10	-10	-10	-10	-10	-10	-71
Federal Employee Retirement Cost Share Reduction .....		-6	-7	-8	-9	-9	-10	-10	-9	-9	-77
<b>Total, Proposed NDD Cap Reductions .....</b>		<b>-6</b>	<b>-7</b>	<b>-8</b>	<b>-9</b>	<b>-9</b>	<b>-10</b>	<b>-10</b>	<b>-9</b>	<b>-9</b>	<b>-149</b>
<b>Proposed 2019 Funding and Outyear Caps with Additional NDD Adjustments:</b>											
Defense .....	647	713	723	740	758	727	742	758	774	790	7,372
Non-Defense .....	540	523	511	490	479	468	458	448	440	431	4,787
<b>Total, Proposed Base Caps with Adjustments .....</b>	<b>1,187</b>	<b>1,236</b>	<b>1,234</b>	<b>1,230</b>	<b>1,237</b>	<b>1,195</b>	<b>1,200</b>	<b>1,206</b>	<b>1,214</b>	<b>1,221</b>	<b>12,159</b>
<b>Cap Adjustments:<sup>4</sup></b>											
Overseas Contingency Operations (OCO) .....		20	20	20	20	10	10	10	10	10	199
Defense <sup>5</sup> .....	69	20	20	20	20	10	10	10	10	10	199
Non-Defense <sup>6</sup> .....	-*										-*
Program Integrity <sup>7</sup> .....	2	3	3	3	4	4	4	4	4	4	35
Disaster Relief <sup>8</sup> .....	7	7	7	7	7	7	7	7	7	7	67
Wildfire Suppression <sup>7</sup> .....	2	2	2	2	2	2	2	2	2	2	15
<b>Total, Cap Adjustments .....</b>	<b>79</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>32</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>315</b>
<b>Total, Proposed Discretionary Funding:</b>											
Defense .....	716	733	743	760	778	737	752	768	784	800	7,571
Non-Defense .....	550	534	522	501	491	480	470	460	452	443	4,904
<b>Total, Proposed Discretionary Funding .....</b>	<b>1,266</b>	<b>1,267</b>	<b>1,265</b>	<b>1,261</b>	<b>1,269</b>	<b>1,217</b>	<b>1,222</b>	<b>1,228</b>	<b>1,236</b>	<b>1,243</b>	<b>12,475</b>

**Table S-7. PROPOSED DISCRETIONARY FUNDING LEVELS IN  
 THE 2019 MID-SESSION REVIEW—Continued**  
 (Net budget authority in billions of dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals 2019- 2028
<i>Memorandum - Appropriations Counted Outside of Discretionary Caps:</i>											
21st Century CURES Appropriations <sup>9</sup>	1	1	*	1	1	*	*	*	*	*	4
Non-BBEDCA Emergency Funding <sup>10</sup>	-5										-5
Net Zero CHIMPs <sup>11</sup>	-4										-4
* \$500 million or less.											

<sup>1</sup> The levels through 2021 are equal to the caps included in the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) with separate categories of funding for "defense" (or Function 050) and "non-defense" programs. The 2019 amounts reflect the caps enacted in the Bipartisan Budget Act of 2018 (BBA of 2018) while 2020 and 2021 include OMB estimates of Joint Committee enforcement (also known as "sequestration"). For 2022 through 2028, the levels are assumed to grow at current services growth rates.

<sup>2</sup> Consistent with the *Addendum to the President's FY 2019 Budget to Account for the Bipartisan Budget Act of 2018* ("the Addendum"), the 2019 Mid-Session Review (MSR) includes defense funding at the cap level provided in the BBA of 2018 while non-defense programs are held \$57 billion below the cap set in the BBA of 2018. After 2019, the Administration proposes defense caps through 2028 that resource the Administration's National Security and National Defense Strategies and shift enduring OCO costs into the base. For non-defense, outyear caps are proposed that reflect an annual two percent (or "2-penny") decrease each year from the proposed 2019 funding level.

<sup>3</sup> These cap reductions are for proposed reforms that would shift the Federal Aviation Administration's air traffic control function to an independent, non-governmental organization beginning in 2022 and reduce Federal agency costs through changes to current civilian employee retirement plans.

<sup>4</sup> The funding amounts in this section are existing or proposed cap adjustments that are designated pursuant to Section 251(b)(2) of BBEDCA.

<sup>5</sup> The outyear OCO amounts for defense for 2020 through 2023 are estimates of incremental war costs that are consistent with the National Security and National Defense Strategies. Amounts from 2024 through 2028 reflect notional placeholders consistent with a potential transition of further OCO costs into the base budget while continuing to fund contingency operations. The placeholder amounts for 2024 through 2028 do not reflect specific decisions or assumptions about OCO funding in any particular year.

<sup>6</sup> As part of the Addendum, the 2019 Mid-Session Review reflects the shift of non-defense OCO amounts into base discretionary funding. The remaining non-defense OCO amount in 2019 reflects a proposed cancellation of balances.

<sup>7</sup> The 2019 Mid-Session Review includes proposed cap adjustments related to program integrity in the Internal Revenue Service and wildfire suppression in the Departments of Agriculture and the Interior. For more information on these proposals, see the Budget Process chapter of the *Analytical Perspectives* volume of the 2019 Budget.

<sup>8</sup> "Disaster Relief" appropriations are amounts designated as such by the Congress provided they are for activities carried out pursuant to a Presidential disaster declaration under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. These amounts are held to a funding ceiling that is determined one year at a time according to a statutory formula. The Administration is requesting \$6.7 billion for Disaster Relief in 2019, but does not explicitly request disaster-designated appropriations in any year after the budget year. A placeholder set at the budget year request level is included in each of the outyears.

<sup>9</sup> The 21st Century CURES Act permitted funds to be appropriated each year and not counted towards the discretionary caps so long as the appropriations were specifically provided for the authorized purposes. These amounts are displayed outside of the discretionary cap totals for this reason and the levels included through the budget window reflect authorized levels.

<sup>10</sup> The 2019 Budget includes permanent cancellations of balances of emergency funding in the Departments of Energy and Housing and Urban Development that are not designated pursuant to BBEDCA. These cancellations are not being re-designated as emergency, therefore no savings are being achieved under the caps nor will the caps be adjusted for these cancellations.

<sup>11</sup> The Addendum to the FY 2019 Budget proposed to amend budget enforcement law so that a provision in an appropriations Act that reduces the budget authority in a mandatory program would not be scored as an offset under the discretionary caps if the outlay savings from the provision net to zero over ten years. OMB's estimate of these "net-zero CHIMPs" included in the FY 2019 Mid-Session Review are reflected here and are separated from funding counted under the discretionary caps.

SUMMARY TABLES

**Table S-8. 2019 DISCRETIONARY OVERVIEW BY MAJOR AGENCY**

(Net budget authority in billions of dollars)

	2017 Actual <sup>1</sup>	2018 Enacted <sup>1</sup>	2019 Request	2019 Request less	
				2018 Enacted	Percent
				Dollar	Percent
<b>Base Discretionary Funding:</b>					
<b>Cabinet Departments:</b>					
Agriculture <sup>2</sup> .....	22.7	24.4	18.5	-5.9	-24.2%
Commerce .....	9.3	11.3	9.8	-1.5	-13.5%
Defense .....	523.2	598.9	617.1	+18.2	+3.0%
Education .....	66.9	70.5	63.2	-7.3	-10.4%
Energy .....	30.2	34.5	30.6	-3.9	-11.3%
<i>National Nuclear Security Administration</i> .....	12.8	14.6	15.1	+0.5	+3.5%
<i>Other Energy</i> .....	17.3	19.9	15.5	-4.4	-22.2%
Health and Human Services <sup>3</sup> .....	87.1	98.1	96.5	-1.6	-1.7%
Homeland Security (DHS) .....	42.4	48.2	47.5	-0.7	-1.4%
Housing and Urban Development (HUD):					
<i>HUD gross total (excluding receipts)</i> .....	48.0	52.7	41.2	-11.5	-21.8%
<i>HUD receipts</i> .....	-14.0	-9.3	-10.0	-0.7	+7.9%
Interior .....	13.5	13.9	11.6	-2.2	-15.9%
Justice .....	28.4	30.1	28.0	-2.1	-6.8%
Labor .....	12.0	12.2	10.9	-1.3	-10.7%
State and Other International Programs <sup>2</sup> .....	38.7	43.7	42.1	-1.6	-3.6%
Transportation .....	19.3	27.3	15.9	-11.4	-41.7%
Treasury .....	12.7	12.9	12.3	-0.5	-4.2%
Veterans Affairs .....	74.4	81.6	85.5	+3.9	+4.8%
<b>Major Agencies:</b>					
Corps of Engineers .....	6.2	6.8	4.8	-2.0	-29.9%
Environmental Protection Agency .....	8.2	8.8	6.1	-2.7	-30.3%
General Services Administration .....	-1.2	-0.5	0.6	+1.1	N/A
National Aeronautics & Space Administration .....	19.7	20.7	19.9	-0.8	-4.1%
National Science Foundation .....	7.5	7.8	7.5	-0.3	-3.8%
Small Business Administration .....	0.8	0.7	0.6	-0.1	-10.0%
Social Security Administration <sup>3</sup> .....	9.3	9.1	8.8	-0.3	-3.0%
Other Agencies .....	20.8	22.2	18.1	-4.1	-18.3%
<b>Subtotal, Base Discretionary Funding</b> .....	<b>1,085.9</b>	<b>1,226.3</b>	<b>1,187.0</b>	<b>-39.3</b>	<b>-3.2%</b>
<b>Cap Adjustment Funding:</b>					
Overseas Contingency Operations:					
Defense .....	82.8	65.9	69.0	+3.1	+4.7%
Homeland Security .....	0.2	0.2	.....	-0.2	-100.0%
State and Other International Programs .....	20.8	12.0	-0.3	-12.3	-102.5%
Subtotal, Overseas Contingency Operations .....	103.7	78.1	68.7	-9.4	-12.0%

**Table S-8. 2019 DISCRETIONARY OVERVIEW BY MAJOR AGENCY—Continued**  
 (Net budget authority in billions of dollars)

	2017 Actual <sup>1</sup>	2018 Enacted <sup>1</sup>	2019 Request	2019 Request less	
				Dollar	Percent
<b>Emergency Requirements:</b>					
Agriculture .....	0.6	3.9	.....	-3.9	-100.0%
Commerce .....	.....	1.0	.....	-1.0	-100.0%
Defense .....	.....	5.8	.....	-5.8	-100.0%
Education .....	.....	2.8	.....	-2.8	-100.0%
Health and Human Services .....	.....	1.1	.....	-1.1	-100.0%
Homeland Security .....	7.4	43.3	.....	-43.3	-100.0%
Housing and Urban Development .....	8.2	28.0	.....	-28.0	N/A
Transportation .....	1.5	1.8	.....	-1.8	N/A
Corps of Engineers .....	1.0	17.4	.....	-17.4	N/A
Small Business Administration .....	0.5	1.7	.....	-1.7	N/A
Other Agencies .....	0.2	1.2	.....	-1.2	N/A
<b>Subtotal, Emergency Requirements .....</b>	<b>19.4</b>	<b>108.0</b>	<b>.....</b>	<b>-108.0</b>	<b>-100.0%</b>
<b>Program Integrity:</b>					
Health and Human Services .....	0.4	0.4	0.5	*	+4.6%
Treasury <sup>4</sup> .....	.....	.....	0.4	+0.4	N/A
Social Security Administration .....	1.5	1.5	1.4	-0.1	-3.6%
<b>Subtotal, Program Integrity .....</b>	<b>2.0</b>	<b>1.9</b>	<b>2.2</b>	<b>+0.3</b>	<b>+17.4%</b>
<b>Disaster Relief:<sup>5</sup></b>					
Homeland Security .....	6.7	7.4	6.7	-0.7	-9.7%
Housing and Urban Development .....	1.4	.....	.....	.....	N/A
<b>Subtotal, Disaster Relief .....</b>	<b>8.1</b>	<b>7.4</b>	<b>6.7</b>	<b>-0.7</b>	<b>-9.7%</b>
<b>Wildfire Suppression Operations<sup>4</sup> .....</b>					
.....	.....	.....	1.5	+1.5	N/A
<b>Subtotal, Cap Adjustment Funding .....</b>	<b>133.2</b>	<b>195.3</b>	<b>79.1</b>	<b>-116.2</b>	<b>-59.5%</b>
<b>Total, Discretionary Budget Authority Under the Caps .....</b>	<b>1,219.1</b>	<b>1,421.6</b>	<b>1,266.1</b>	<b>-155.5</b>	<b>-10.9%</b>
<i>Memorandum - Appropriations Counted Outside of Discretionary Caps:</i>					
<i>21st Century CURES Appropriations:<sup>6</sup></i>					
Health and Human Services .....	0.9	1.1	0.8	-0.3	-26.0%
<i>Non-BBEDCA Emergency Appropriations:<sup>7</sup></i>					
Energy .....	.....	.....	-4.7	-4.7	N/A
Housing and Urban Development .....	.....	.....	-*	-*	N/A
<i>Net Zero Changes in Mandatory Programs:<sup>8</sup></i>					
Agriculture .....	.....	.....	-0.4	-0.4	N/A
Interior .....	.....	.....	-*	-*	N/A
Health and Human Services .....	.....	.....	-3.8	-3.8	N/A

\* \$50 million or less.

<sup>1</sup> 2017 Actual and 2018 Enacted include changes that occur after appropriations are enacted that are part of budget execution such as transfers, reestimates, and the rebasing as mandatory any changes in mandatory programs enacted in appropriations bills.

**Table S-8. 2019 DISCRETIONARY OVERVIEW BY MAJOR AGENCY—Continued**

<sup>2</sup> Funding for Food for Peace Title II Grants is included in the State and Other International Programs total. Although the funds are appropriated to the Department of Agriculture, the funds are administered by the U.S. Agency for International Development.

<sup>3</sup> Funding from the Hospital Insurance and Supplementary Medical Insurance trust funds for administrative expenses incurred by the Social Security Administration that support the Medicare program are included in the Health and Human Services total and not in the Social Security Administration total.

<sup>4</sup> The 2019 Mid-Session Review includes proposed cap adjustments related to program integrity in the Internal Revenue Service and wildfire suppression in the Departments of Agriculture and the Interior. For more information on these proposals, see the Budget Process chapter of the *Analytical Perspectives* volume of the 2019 Budget.

<sup>5</sup> "Disaster Relief" appropriations are amounts designated as such by the Congress provided they are for activities carried out pursuant to a Presidential disaster declaration under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. These amounts are held to a funding ceiling that is determined one year at a time according to a statutory formula. The Administration is requesting \$6.7 billion for Disaster Relief in 2019.

<sup>6</sup> The 21st Century CURES Act permitted funds to be appropriated each year for certain activities and not counted toward the discretionary caps so long as the appropriations were specifically provided for the authorized purposes. These amounts are displayed outside of the discretionary caps totals for this reason.

<sup>7</sup> The 2019 Budget includes permanent cancellations of balances of emergency funding in the Departments of Energy and Housing and Urban Development that are not designated pursuant to BBEDCA. These cancellations are not being re-designated as emergency, therefore no savings are being achieved under the caps nor will the caps be adjusted for these cancellations.

<sup>8</sup> The Addendum to the 2019 Budget proposed to amend budget enforcement law so that a provision in an appropriations Act that reduces the budget authority in a mandatory program would not be scored as an offset under the discretionary caps if the outlay savings from the provision net to zero over ten years. OMB's estimate of these "net-zero CHIMPs" included in the FY 2019 Mid-Session Review are reflected here and are separated from funding counted under the discretionary caps.

**Table S-9. ESTIMATED  
 SPENDING FROM 2019 BALANCES  
 OF BUDGET AUTHORITY:  
 DISCRETIONARY PROGRAMS**  
 (in billions of dollars)

	Total
Outlays from end-of-2019 balances:	
2020 .....	711.0
2021 .....	285.1
2022 .....	128.6
2023 .....	62.3
2024 .....	34.0
2025 .....	19.3
2026 .....	9.8
2027 .....	4.5
2028 .....	3.0

Note: Required by 31 USC 1106(a)(3). Balances as of the end of 2019 include unspent balances of discretionary budget authority provided in 2019 and prior years, as well as unspent balances of mandatory contract authority that is subject to discretionary obligation limitations.



SUMMARY TABLES

**Table S-10. OUTLAYS FOR MANDATORY PROGRAMS UNDER CURRENT LAW<sup>1</sup>**  
 (In billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
													2019- 2023	2019- 2028
<b>Outlays:</b>														
Human resources programs:														
Education, training, employment and social services .....	52	4	16	21	24	26	27	27	27	27	27	27	114	249
Health .....	473	512	534	550	570	602	637	674	714	762	805	852	2,891	6,698
Medicare .....	591	586	646	690	742	839	872	902	1,013	1,092	1,169	1,342	3,790	9,308
Income security .....	436	429	457	467	481	504	509	514	537	566	560	585	2,418	5,180
Social security .....	939	982	1,042	1,104	1,169	1,238	1,313	1,392	1,474	1,560	1,649	1,744	5,866	13,685
Veterans' benefits and services .....	105	102	120	127	132	148	146	143	162	171	179	204	673	1,533
Subtotal, human resources programs .....	2,596	2,615	2,813	2,959	3,118	3,388	3,504	3,652	3,928	4,177	4,389	4,754	15,752	36,651
Other mandatory programs:														
International affairs .....	-5	-3	*	2	2	1	*	-1	-2	-3	-4	-5	5	4
Energy .....	-1	-2	-2	-1	-1	-3	-3	-4	-4	-2	-2	-2	-11	-13
Natural resources and environment .....	1	3	4	5	5	4	5	4	4	4	4	3	23	23
Agriculture .....	13	16	16	14	17	17	17	17	17	17	17	17	82	83
Commerce and housing credit .....	-18	5	-8	-10	-10	-10	-10	-10	-9	-7	-7	-6	-48	-50
Transportation .....	1	1	1	1	1	1	1	1	1	3	3	3	7	7
Justice .....	3	8	12	8	6	5	2	2	2	1	2	6	33	23
General government .....	6	9	9	9	8	9	8	8	9	9	9	9	43	42
Undistributed offsetting receipts .....	-90	-97	-101	-103	-104	-106	-107	-109	-123	-113	-115	-118	-520	-528
Other functions .....	11	20	8	9	9	9	9	8	8	8	8	12	44	44
Subtotal, other mandatory programs .....	-77	-39	-59	-65	-67	-73	-78	-82	-96	-82	-85	-81	-342	-768
Total, outlays for mandatory programs under current law .....	2,519	2,575	2,754	2,894	3,051	3,286	3,426	3,570	3,831	4,094	4,304	4,673	15,410	35,883

<sup>1</sup> This table meets the requirements of 31 USC 1106(a)(2).

\*\$500 million or less

**Table S-11. FEDERAL GOVERNMENT FINANCING AND DEBT**  
(In billions of dollars)

	Actual 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
							Estimate					
<b>Financing:</b>												
Unified budget deficit:												
Primary deficit/surplus (-)	403	527	693	607	479	415	228	-6	-69	-149	-237	-271
Net interest	263	322	393	469	531	593	651	695	728	757	786	810
Unified budget deficit	665	849	1,085	1,076	1,011	1,008	879	689	659	608	549	539
As a percent of GDP	3.5%	4.2%	5.1%	4.8%	4.3%	4.1%	3.4%	2.5%	2.3%	2.0%	1.7%	1.6%
Other transactions affecting borrowing from the public:												
Changes in financial assets and liabilities: <sup>1</sup>	-194	191										
Change in Treasury operating cash balance												
Net disbursements of credit financing accounts:												
Direct loan and Troubled Asset Relief Program (TARP) equity purchase accounts	54	98	96	87	86	89	87	79	69	59	50	46
Guaranteed loan accounts	-14	-10	5	3	2	-*	-2	-4	-5	-9	-8	-1
Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust (NRRIT)	1	-*	-1	-1	-1	-1	-1	-1	-*	-*	-*	*
Net change in other financial assets and liabilities <sup>2</sup>	-15											
Subtotal, changes in financial assets and liabilities	-167	279	100	88	88	88	84	75	63	50	42	45
Seigniorage on coins	-*	-*	-*	-*	-*	-*	-*	-*	-*	-*	-*	-*
Total, other transactions affecting borrowing from the public	-168	278	100	88	87	88	84	74	63	49	41	45
Total, requirement to borrow from the public (equals change in debt held by the public)	498	1,127	1,185	1,164	1,098	1,095	963	764	721	658	590	583
<b>Changes in Debt Subject to Statutory Limitation:</b>												
Change in debt held by the public	498	1,127	1,185	1,164	1,098	1,095	963	764	721	658	590	583
Change in debt held by Government accounts	168	144	156	136	133	93	116	154	91	84	-21	-79
Change in other factors	4	1	2	3	2	2	2	2	1	1	2	2
Total, change in debt subject to statutory limitation	670	1,272	1,344	1,302	1,233	1,191	1,081	919	814	743	570	506
<b>Debt Subject to Statutory Limitation, End of Year:</b>												
Debt issued by Treasury	20,180	21,451	22,793	24,094	25,326	26,515	27,595	28,514	29,328	30,070	30,639	31,144
Adjustment for discount, premium, and coverage <sup>3</sup>	29	30	32	33	35	36	37	38	38	38	39	40
Total, debt subject to statutory limitation <sup>4</sup>	20,209	21,481	22,825	24,127	25,360	26,551	27,632	28,552	29,366	30,108	30,679	31,184
<b>Debt Outstanding, End of Year:</b>												
Gross Federal debt: <sup>5</sup>												
Debt issued by Treasury	20,180	21,451	22,793	24,094	25,326	26,515	27,595	28,514	29,328	30,070	30,639	31,144
Debt issued by other agencies	26	26	25	24	23	22	21	20	19	18	17	16
Total, gross Federal debt	20,206	21,477	22,818	24,118	25,349	26,537	27,617	28,534	29,347	30,088	30,656	31,160
As a percent of GDP	105.4%	106.8%	107.9%	108.3%	108.3%	107.9%	106.9%	105.1%	102.9%	100.6%	97.7%	94.7%

SUMMARY TABLES

**Table S-11. FEDERAL GOVERNMENT FINANCING AND DEBT—Continued**  
 (In billions of dollars)

	Estimate											
	Actual 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Held by:</b>												
Debt held by Government accounts .....	5,540	5,684	5,840	5,976	6,109	6,202	6,319	6,472	6,563	6,647	6,626	6,546
Debt held by the public <sup>e</sup> .....	14,665	15,793	16,978	18,142	19,240	20,335	21,298	22,062	22,783	23,441	24,030	24,614
As a percent of GDP .....	76.5%	78.5%	80.3%	81.5%	82.2%	82.7%	82.4%	81.3%	79.9%	78.4%	76.6%	74.8%
<b>Debt Held by the Public Net of Financial Assets:</b>												
Debt held by the public .....	14,665	15,793	16,978	18,142	19,240	20,335	21,298	22,062	22,783	23,441	24,030	24,614
Less financial assets net of liabilities:												
Treasury operating cash balance .....	159	350	350	350	350	350	350	350	350	350	350	350
Credit financing account balances:												
Direct loan and TARP equity purchase accounts .....	1,281	1,379	1,475	1,562	1,648	1,738	1,824	1,903	1,972	2,031	2,081	2,126
Guaranteed loan accounts .....	14	4	9	12	14	14	12	8	3	-6	-14	-15
Government-sponsored enterprise preferred stock .....	93	94	94	94	94	94	94	94	94	94	94	94
Non-Federal securities held by NRRIT .....	25	25	24	23	22	21	21	20	20	19	19	19
Other assets net of liabilities .....	-58	-58	-58	-58	-58	-58	-58	-58	-58	-58	-58	-58
Total, financial assets net of liabilities .....	1,515	1,795	1,895	1,983	2,071	2,159	2,243	2,318	2,381	2,430	2,472	2,517
Debt held by the public net of financial assets .....	13,151	13,998	15,083	16,158	17,169	18,176	19,055	19,744	20,402	21,010	21,558	22,097
As a percent of GDP .....	68.6%	69.6%	71.3%	72.6%	73.4%	73.9%	73.8%	72.7%	71.6%	70.2%	68.7%	67.2%

\* \$500 million or less.

<sup>1</sup>A decrease in the Treasury operating cash balance (which is an asset) is a means of financing a deficit and therefore has a negative sign; that is, the reduction in cash balances reduces the amount that would otherwise be borrowed from the public. An increase in checks outstanding (which is a liability) is also a means of financing a deficit and therefore also has a negative sign.

<sup>2</sup>Includes checks outstanding, accrued interest payable on Treasury debt, uninvested deposit fund balances, allocations of special drawing rights, and other liability accounts; and, as an offset, cash and monetary assets (other than the Treasury operating cash balance), other asset accounts, and profit on sale of gold.

<sup>3</sup>Consists mainly of debt issued by the Federal Financing Bank (which is not subject to limit), the unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds), and the unrealized discount on Government account series securities.

<sup>4</sup>Legislation enacted February 9, 2018 (P.L. 115-123), temporarily suspends the debt limit through March 1, 2019.

<sup>5</sup>Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities are almost all measured at face value. Treasury securities in the Government account series are otherwise measured at face value less unrealized discount (if any).

<sup>6</sup>At the end of 2017, the Federal Reserve Banks held \$2,465 billion of Federal securities and the rest of the public held \$12,200 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

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**EXECUTIVE OFFICE OF THE PRESIDENT**

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C.

Research Update:

## Duke Energy Corp. And Subs. Outlook Revised To Negative On Coal Ash Risks, Regulatory-Lag, And Project Delays

May 20, 2019

### Rating Action Overview

- We expect a weakening of Duke Energy Corp.'s (Duke Energy) financial measures compared to our previous expectations and we no longer expect that Duke's financial measures will be consistently above our downgrade threshold. Specifically, beginning in 2020, we no longer expect that funds from operations (FFO) to debt will consistently be greater than 15%.
- Our expectations for weaker financial measures incorporate recent storm costs, uncertainty regarding certain coal ash recovery in South Carolina, potentially higher coal ash costs in North Carolina, regulatory-lag, and delays to the Atlantic Coast Pipeline (ACP) project with an in-service date that is now pushed back to 2020 for Phase 1 of the project, and 2021 for the remainder of the project.
- We are affirming our ratings on Duke Energy Corp. and all its rated subsidiaries. However, we are revising our rating outlook for Duke Energy and all of its subsidiaries to negative from stable. At the same time we are lowering our stand-alone credit profile for subsidiary Duke Energy Carolinas LLC (DEC) to 'a' from 'a+', reflecting expectations for weaker stand-alone financial measures.
- The negative outlook incorporates our expectation that Duke's financial measures may not be consistently above our downgrade threshold of FFO to debt of greater than 15%. The company is facing several headwinds, including coal ash risks, project delays, regulatory lag, and high capital spending that we expect could pressure and weaken its financial measures over the next 12-24 months.

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### Rating Action Rationale

Our outlook revision to negative on Duke Energy and its subsidiaries reflect our expectations for weaker financial measures that we do not expect to be consistently above our downgrade threshold and could result in a ratings downgrade over the next 12-24 months. Specifically, we

**Research Update: Duke Energy Corp. And Subs. Outlook Revised To Negative On Coal Ash Risks, Regulatory-Lag, And Project Delays**

expect delays and increased costs for the company's ACP project (now expected to cost between \$7 billion and \$7.8 billion) to weaken credit metrics. Duke owns a 47% interest in the ACP project, and its full in-service date has been pushed back to 2021 though the company expects to phase-in portions of the project in 2020. In addition, we expect delays in attaining recovery for 2018 storm costs in North Carolina to result in regulatory-lag. In South Carolina, a recent regulatory directive, which effectively lowers Duke Energy's authorized returns, and disallows recovery of certain coal ash costs, elevates both coal ash and regulatory risks for the company, signaling a potential change in the consistency and predictability of that state's regulatory construct. Furthermore, the recent order by the North Carolina Department of Environmental Quality (NCDEQ), requiring Duke to fully excavate its remaining coal ash basins in the state could significantly raise costs and create regulatory constraints beginning in 2023, resulting in longer-term risks due to its coal exposure. After incorporating the company's robust capital spending, we expect Duke's FFO to debt to weaken to below our our downgrade threshold of 15% for 2020 and 2021. While Duke has historically taken actions to support credit quality, our current base case does not incorporate incremental credit supportive actions. Recently, Duke Energy issued common equity, hybrids, and sold assets to protect credit quality. Given the company's size, it is not inconceivable that similar steps are taken in the future to protect credit quality.

Our assessment of Duke Energy's business risk profile reflects its very large size and low-risk regulated utilities that provide electricity and natural gas to customers in North Carolina, South Carolina, Florida, Indiana, Ohio, Tennessee, and Kentucky. We view Duke's modest nonutility, contracted wind and solar investments as relatively minimal, representing well below 5% of its overall credit profile. Duke recently announced the sale of a 49% minority interest in its commercial renewable investment portfolio to John Hancock.

Duke Energy serves more than 7 million customers across seven states, benefiting from scale, operating, and regulatory diversity. Overall, the regulated utilities operate under generally constructive regulatory frameworks and have consistently demonstrated effective management of regulatory risk. Furthermore, the utilities have consistently demonstrated high levels of reliability, and continue to benefit from modest customer growth despite being tempered by declining per-customer usage trends.

We assess Duke Energy's financial measures against our medial volatility financial benchmarks compared with those used for the typical corporate issuer, reflecting the company's lower-risk, rate-regulated utility assets and effective management of regulatory risk. Under our base-case scenario of robust annual capital spending that averages about \$10 billion annually, dividend of close to \$2.8 billion for 2019, periodic base rate increases and use of riders, modest load growth, proceeds from the pending sale of its minority interest in its commercial renewable portfolio assets, ACP is fully in-service by 2021, annual common equity issuance of approximately \$500 million annually, and about \$1 billion of favorable tax positions utilized over our forecast period, we expect FFO to debt to weaken to about 14.5% for 2020 and 2021.

## **Outlook**

The negative outlook reflects our expectation that Duke Energy's financial measures will weaken to below our downgrade threshold of FFO to debt of 15% for 2020 and 2021. This incorporates potentially higher coal ash risks, ACP project delays, regulatory lag, and robust capital spending.

## **Downside scenario**

We could lower the ratings on Duke Energy by one notch over the next 12 to 24 months if the

**Research Update: Duke Energy Corp. And Subs. Outlook Revised To Negative On Coal Ash Risks, Regulatory-Lag, And Project Delays**

company's financial measures do not consistently improve, reflecting FFO to debt that is consistently above 15%. We could also lower the ratings if Duke Energy's business risk increases because of additional regulatory lag, more stringent environmental rules related to its coal exposure, if we conclude that the company's regulatory risk management in its key states has weakened, or if the company shifts its strategic focus away from its predominantly lower risk regulated utility operations.

### **Upside scenario**

We could revise the outlook to stable for Duke Energy Corp. and its subsidiaries over the next 12-24 months if the company improves its financial measures such that FFO to debt remains consistently above 15%, without any deterioration in the company's business risk profile.

### **Company Description**

Duke Energy Corp., together with its subsidiaries, operates as an energy company, through three segments: Electric Utilities and Infrastructure, Gas Utilities and Infrastructure, and Commercial Renewables. The Electric Utilities and Infrastructure segment generates, transmits, distributes, and sells electricity in the Carolinas, Florida, and the Midwest; and uses coal, hydroelectric, natural gas, oil, renewable sources, and nuclear fuel to generate electricity. It also engages in the wholesale of electricity to municipalities, electric cooperative utilities, and other load-serving entities. This segment serves approximately 7.7 million retail electric customers in six states in the Southeast and Midwest regions of the U.S. covering a service territory of approximately 95,000 square miles; and owns approximately 50,880 megawatts (MW) of generation capacity. The Gas Utilities and Infrastructure segment distributes natural gas to residential, commercial, industrial, and power generation natural gas customers; and owns, operates, and invests in various pipeline transmission and natural gas storage facilities. It has approximately 1.6 million customers, including 1.1 million customers located in North Carolina, South Carolina, and Tennessee, as well as 531,000 customers located in southwestern Ohio and northern Kentucky. The Commercial Renewables segment acquires, owns, builds, develops, and operates wind and solar renewable generation projects, including nonregulated renewable energy and energy storage services to utilities, electric cooperatives, municipalities, and commercial and industrial customers. This segment has 21 wind and 100 solar facilities and one battery storage facility with a capacity of 2,991 MW across 19 states.

### **Liquidity**

We assess Duke's liquidity as adequate to cover its needs over the next 12 months. We expect the company's liquidity sources to exceed uses by 1.1x or more, and that it will meet our other requirements for such a designation. Duke's liquidity benefits from stable cash flow generation, ample availability under the revolving credit facilities, and manageable debt maturities over the next few years. Importantly, we use maintenance capital spending, recognizing that Duke has the ability to reduce capital spending in times of stress. The company's well-established and solid bank relationships, the ability to absorb high-impact, low-probability events without the need for refinancing, and a satisfactory standing in credit markets also support our liquidity assessment as adequate. Duke also has revolving credit facilities totaling \$8 billion that backstop its commercial paper program. We rate this commercial paper 'A-2', reflecting our ratings on the company.

Principal liquidity sources:

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- Credit facility of about \$8 billion;
- Cash in hand around \$440 million; and
- Cash FFO of about \$9 billion.

Principal liquidity uses:

- Debt maturities of close to \$7 billion in 2019, including amounts outstanding under the company's commercial paper;
- Estimated maintenance capital spending of about \$2.7 billion; and
- Dividends of about \$2.8 billion.

## **Environmental, Social, And Governance**

Approximately 75% of Duke's total electric generation fleet capacity of almost 51 gigawatts (GW) are fossil fuel-based (30% coal; 45% natural gas), which exposes it to the ongoing cost of operating older units in the face of disruptive technological advances and the potential for changing environmental regulations that may require significant capital investments. Historically, the company has faced significant environmental, social, and financial repercussions from closing its coal ash ponds in North Carolina, but is mitigating this risk through the state's regulatory framework, which allows coal ash remediation costs to be recovered. But, the potential for future regulatory disallowances related to the company's coal ash remediation still poses some risk. In addition, the company's carbon-free nuclear generation portfolio increases its operating risk and exposes it to longer-term nuclear waste storage risks despite the company's long-term track record of achieving safe operational standards of its nuclear fleet.

On the gas side, older assets are susceptible to natural gas leaks, which emits methane. The company also operates its utilities in regions of the U.S. that are prone to frequent hurricanes, which could increase the company's risk exposure because climate change is intensifying the severity and frequency of these natural disasters globally. Overall, we assess Duke's environmental risk as higher than most peers given its environmental exposure, including those related to its coal exposure and hurricanes. Social and governance risk factors are in line with peers. We view Duke's ability to deliver safe and reliable services to customers as a positive social factor. And Duke has independent board of directors, who in our view, are capably engaged in risk oversight on behalf of all stakeholders.

## **Issue Ratings - Subordination Risk Analysis**

### **Capital structure**

Duke's capital structure consists of about \$27 billion of unsecured debt and close to \$30 billion of secured debt at its subsidiaries.

### **Analytical conclusions**

- The unsecured debt issued at the Duke Energy level is rated 'BBB+', one notch below the issuer credit rating, as the priority secured debt at its subsidiaries comprises more than 50% of the



**Research Update: Duke Energy Corp. And Subs. Outlook Revised To Negative On Coal Ash Risks, Regulatory-Lag, And Project Delays**

company's consolidated capital structure.

- The short-term rating is 'A-2' based on our long-term issuer credit rating on the company.
- The junior subordinated notes and preferred stock are rated 'BBB', two notches below the issuer credit rating. We rate these hybrid securities premised on their deferability and subordination.

## **Ratings Score Snapshot**

### **Issuer Credit Rating: A-/Negative/A-2**

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Excellent

### **Financial risk: Significant**

- Cash flow/Leverage: Significant

### **Anchor: 'a-'**

### **Modifiers**

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

### **Stand-alone credit profile: 'a-'**

- Group credit profile: 'a-'

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**Related Criteria**

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

**Ratings List**

<b>Ratings Affirmed; Outlook Action</b>		
	<b>To</b>	<b>From</b>
<b>Duke Energy Corp.</b>		
<b>Piedmont Natural Gas Co. Inc.</b>		
<b>Duke Energy Progress, LLC</b>		
<b>Duke Energy Ohio Inc.</b>		
<b>Duke Energy Kentucky Inc.</b>		
<b>Duke Energy Indiana Inc.</b>		
<b>Duke Energy Florida, LLC</b>		
<b>Duke Energy Carolinas LLC</b>		
<b>Cinergy Corp.</b>		
Issuer Credit Rating	A-/Negative/A-2	A-/Stable/A-2
<b>Florida Progress Corp.</b>		
<b>Progress Energy Inc.</b>		
Issuer Credit Rating	A-/Negative/--	A-/Stable/--

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**Ratings Affirmed; Recovery Ratings Unchanged**

**Duke Energy Corp.**

Senior Unsecured	BBB+
Junior Subordinated	BBB
Preferred Stock	BBB
Commercial Paper	A-2

**Duke Energy Carolinas LLC**

Senior Secured	A
Recovery Rating	1+
Senior Unsecured	A-

**Duke Energy Florida, LLC**

Senior Secured	A
Recovery Rating	1+
Senior Unsecured	A-
Preferred Stock	BBB

**Duke Energy Indiana Inc.**

Senior Secured	A
Recovery Rating	1+
Senior Unsecured	A-

**Duke Energy Kentucky Inc.**

Senior Unsecured	A-
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**Duke Energy Ohio Inc.**

Senior Secured	A
Recovery Rating	1+
Senior Unsecured	A-

**Duke Energy Progress, LLC**

Senior Secured	A
Recovery Rating	1+
Preferred Stock	BBB

**Piedmont Natural Gas Co. Inc.**

Senior Unsecured	A-
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**Progress Energy Inc.**

Senior Unsecured	BBB+
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Research Update: Duke Energy Corp. And Subs. Outlook Revised To Negative On Coal Ash Risks, Regulatory-Lag, And Project Delays

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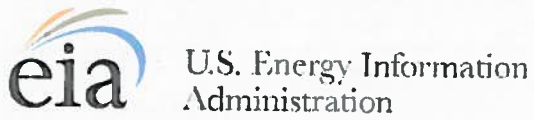
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Annual Energy Outlook 2018

Table: Macroeconomic Indicators

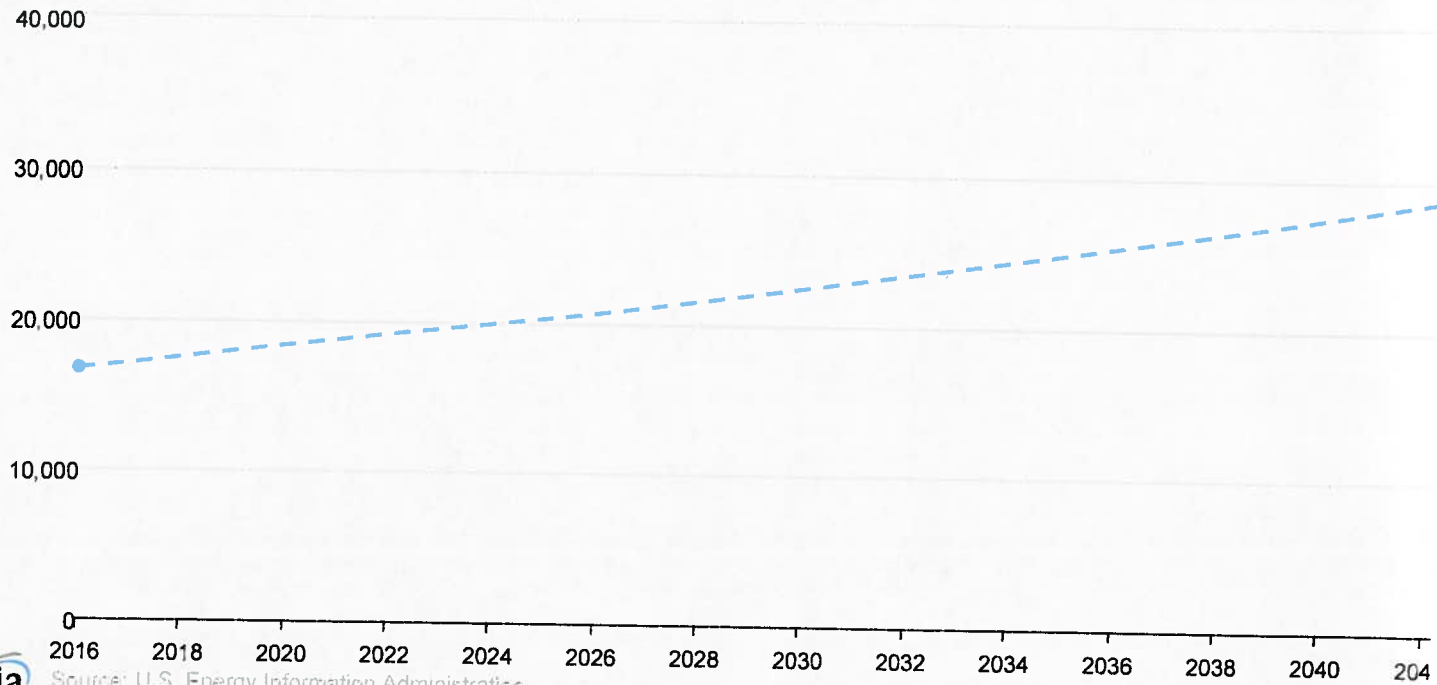
Case: Reference case

PUBLICATIONS & TABLES ▾

Macroeconomic Indicators: Real Gross Domestic Product

Case: Reference case

billion 2009 \$



Source: U.S. Energy Information Administration

PUBLICATIONS & TABLES ▾

CASES & SCENARIOS ▾

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HELP

series	Map	Annual	Every 5th Year	2016	2050		
Real Gross Domestic Product (billion 2009 \$)				X			
Components of Real Gross Domestic Product							
				2016	2017	2018	2019

Real Business Fixed Investment (billion 2009 \$)	8,000
Real Government Spending (billion 2009 \$)	8,000
Real Exports (billion 2009 \$)	8,000
Real Imports (billion 2009 \$)	8,000
<b>Energy Intensity</b>	
(thousand Btu per 2009 dollar of GDP)	
Delivered Energy (thousand Btu/\$ GDP)	31.00%
Total Energy (thousand Btu/\$ GDP)	31.00%
<b>Price Indices</b>	
GDP Chain-type Price Index (2009=1.000) (2009=1.000)	2.000
Consumer Price Index (1982-84=1.00)	
All-urban (1982-84=1.00)	2.00%
Energy Commodities and Services (1982-84=1.00)	3.00%
Wholesale Price Index (1982=1.00)	
All Commodities (1982=1.00)	3.00%
Fuel and Power (1982=1.00)	2.00%
Metals and Metal Products (1982=1.00)	0.6%
Industrial Commodities excluding Energy (1982=1.00)	2.00%
<b>Interest Rates (percent, nominal)</b>	
Federal Funds Rate (percent, nominal)	3.00
10-Year Treasury Note (percent, nominal)	4.05
AA Utility Bond Rate (percent, nominal)	5.90
<b>Value of Shipments (billion 2009 dollars)</b>	
Non-Industrial and Service Sectors (billion 2009 \$)	2,000



GDP = Gross domestic product.

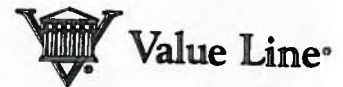
Btu = British thermal unit.

-- = Not applicable.

Sources: 2016 and 2017: IHS Markit, Macroeconomic and Employment models, August 2017; and IHS Markit, Industry model, May 2017. Projections: U.S. Energy Information Administration, AEO2018 National Energy Modeling System.

# The Value Line Investment Survey

ISSUE 3  
 Pages 2001-2012



**Part 2** File in page order in the *Selection & Opinion* binder.

**SELECTION & OPINION**

November 30, 2018

Dear Subscribers,

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## The Quarterly Economic Review

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**In Three Parts: Part 1 is the Summary & Index. This is Part 2, Selection & Opinion. Part 3 is Ratings & Reports. Volume LXXIV, Number 16.**

Published weekly by VALUE LINE, INC.  
 551 Fifth Avenue, New York, NY 10176

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### VALUE LINE ECONOMIC AND STOCK MARKET COMMENTARY

**The nation's economy really stepped it up earlier this year**, as the near decade-long expansion, heretofore an understated affair, came on strongly during the spring and summer. In all, GDP growth, which had been averaging a pedestrian 1.5% to 2.5% for much of this decade, increased by 4.2% and 3.5%, respectively, in the second and third quarters (Note that third-quarter GDP was to be revised after we went to press.) That mid-year push is being followed by a rather solid final three months, in which most consumer and industrial sectors continue to do well. This should lift growth to near 3% for the full 12 months.

**The good times have been led by consumers**, who, bolstered by fatter paychecks, bright job prospects, and generally rising home prices, have opened their wallets wider this year. In truth, though, it is more than the consumer. The upturn also has been supported by a rise in government spending (both federal and state) and, at least early in 2018, by strength in nonresidential fixed investment. Also helping have been healthy increases in employment and a 50-year low in the jobless rate. Steady gains in manufacturing and nonmanufac-

turing, growing income streams, and multi-decade highs in consumer confidence also are underpinning the above-trend GDP growth.

**"All's Well That Ends Well," at least as far as the economy is concerned.** The early 17th century play by William Shakespeare, meantime, would seem to be an apt description in the old year's final months. As such, we are seeing high levels of manufacturing and nonmanufacturing, a rebound in retail sales, and a slight pickup in housing starts in October after a sharp drop in September. To be sure, the gains aren't uniform, as our growing trade deficit affirms, with the imposition of new tariffs in Europe and China hampering our export business. At the same time, rising mortgage rates (as part of an overall tightening by the Federal Reserve) are keeping a lid on housing activity. So, while fourth-quarter GDP growth may surpass the 2010-2017 range of 1.5% to 2.5%, it could fall short of the mid-2018 gains.

**The beat is likely to go on in 2019**, but at a gradually moderating pace, driven into this

*Continued on page 2004*

### VALUE LINE FORECAST FOR THE U.S. ECONOMY

#### Statistical Summary for 2018-2020

	2018:3	2018:4	2019:1	2019:2	2019:3	2019:4	2020:1	2018	2019
<b>GDP And Other Key Measures</b>									
Real Gross Domestic Product	18673	18802	18919	19036	19149	19263	19373	18578	19091
Total Light Vehicle Sales (Mill. Units)	16.9	16.8	16.8	16.8	16.7	16.7	16.7	17.0	16.8
Housing Starts (Million Units)	1.22	1.24	1.26	1.30	1.30	1.30	1.32	1.26	1.29
After-Tax Profits (\$Bill.)	1854	1942	1878	1993	1947	2039	1953	1867	1964
<b>Annualized Rates of Change</b>									
Gross Domestic Product (Real)	3.5	2.8	2.5	2.5	2.4	2.4	2.3	2.9	2.8
GDP Deflator	1.7	2.2	2.3	2.3	2.4	2.5	2.5	2.2	2.4
CPI-All Urban Consumers	2.0	2.5	2.5	2.6	2.5	2.4	2.2	2.4	2.5
<b>Average For The Period</b>									
National Unemployment Rate	3.8	3.7	3.5	3.4	3.4	3.4	3.4	3.9	3.4
Prime Rate	5.0	5.3	5.5	5.8	6.0	6.3	6.3	4.9	5.9
10-Year Treasury Note Rate	2.9	3.2	3.3	3.3	3.3	3.3	3.4	3.0	3.3



## Value Line Forecast for the U.S. Economy

	Actual		Estimated					
	2018:2	2018:3	2018:4	2019:1	2019:2	2019:3	2019:4	2020:1
<b>Gross Domestic Product and its Components (2012 Chain Weighted \$) Billions of Dollars</b>								
Final Sales	18516	18581	18705	18821	18937	19045	19154	19258
Total Consumption	12841	12968	13070	13174	13272	13363	13453	13539
Nonresidential Fixed Investment	2709	2715	2761	2802	2839	2874	2910	2942
Structures	552	540	544	548	554	559	565	570
Equipment & Software	1265	1266	1288	1304	1320	1336	1349	1359
Residential Fixed Investment	613	607	602	604	607	611	617	624
Exports	2574	2551	2580	2614	2653	2695	2738	2778
Imports	3415	3490	3542	3594	3646	3700	3754	3814
Federal Government	1224	1234	1258	1277	1292	1299	1303	1307
State & Local Governments	1947	1962	1972	1982	1989	1994	1999	2005
Gross Domestic Product	20397	20660	20917	21166	21419	21674	21938	22200
Real GDP (2012 Chain Weighted \$)	18513	18673	18802	18919	19036	19149	19263	19373
<b>Prices and Wages — Annual Rates of Change</b>								
GDP Deflator	3.0	1.7	2.2	2.3	2.3	2.4	2.5	2.5
CPI-All Urban Consumers	1.7	2.0	2.5	2.5	2.6	2.5	2.4	2.2
PPI-Finished Goods	2.7	2.2	2.5	2.7	2.5	2.5	2.2	2.0
Employment Cost Index—Total Comp.	2.4	3.0	3.5	3.4	3.4	3.5	3.5	3.5
Productivity	3.0	2.2	2.0	1.7	1.5	1.3	1.3	1.2
<b>Production and Other Key Measures</b>								
Industrial Prod. (% Change, Annualized)	5.3	3.3	2.7	2.3	2.3	2.5	2.5	2.3
Factory Operating Rate (%)	75.5	75.8	76.0	76.0	76.0	76.0	76.0	76.0
Nonfarm Inven. Change (2012 Chain Weighted \$)	-31.0	81.4	80.0	85.0	80.0	85.0	80.0	80.0
Housing Starts (Mill. Units)	1.26	1.22	1.24	1.26	1.30	1.30	1.30	1.32
Existing House Sales (Mill. Units)	5.41	5.27	5.00	5.10	5.30	5.40	5.60	5.60
Total Light Vehicle Sales (Mill. Units)	17.2	16.9	16.8	16.8	16.8	16.7	16.7	16.7
National Unemployment Rate (%)	3.9	3.8	3.7	3.5	3.4	3.4	3.4	3.4
Federal Budget Surplus (Unified, FY, \$Bill)	-7.0	-172	-280	-350	-50.0	-250	-300	-350
Price of Oil (\$Bbl., U.S. Refiners' Cost)	67.24	69.05	60.03	62.00	64.00	66.00	68.00	67.00
<b>Money and Interest Rates</b>								
3-Month Treasury Bill Rate (%)	1.8	2.0	2.4	2.6	2.7	2.8	3.0	3.0
Federal Funds Rate (%)	1.7	1.9	2.2	2.4	2.7	2.9	3.2	3.2
10-Year Treasury Note Rate (%)	2.9	2.9	3.2	3.3	3.3	3.3	3.3	3.4
Long-Term Treasury Bond Rate (%)	3.1	3.1	3.4	3.5	3.6	3.7	3.7	3.7
AAA Corporate Bond Rate (%)	3.9	4.0	4.2	4.3	4.4	4.4	4.4	4.5
Prime Rate (%)	4.8	5.0	5.3	5.5	5.8	6.0	6.3	6.3
<b>Incomes</b>								
Personal Income (Annualized % Change)	4.2	4.2	3.7	4.5	4.8	5.0	5.0	5.3
Real Disp. Inc. (Annualized % Change)	2.5	2.5	1.5	1.7	3.8	2.8	2.8	3.0
Personal Savings Rate (%)	6.8	6.4	6.0	5.8	5.8	5.9	6.0	6.2
After-Tax Profits (Annualized \$Bill)	1898	1854	1942	1878	1993	1947	2039	1953
Yr-to-Yr % Change	5.7	4.3	6.0	6.0	5.0	5.0	5.0	4.0
<b>Composition of Real GDP—Annual Rates of Change</b>								
Gross Domestic Product	4.2	3.5	2.8	2.5	2.5	2.4	2.4	2.3
Final Sales	5.4	1.4	2.7	2.5	2.5	2.3	2.3	2.2
Total Consumption	3.8	4.0	3.2	3.2	3.0	2.8	2.7	2.6
Nonresidential Fixed Investment	8.7	0.8	7.0	6.0	5.5	5.0	5.0	4.5
Structures	14.5	-7.9	3.0	3.0	4.0	4.0	4.0	3.5
Equipment & Software	4.6	0.4	7.0	5.0	5.0	5.0	4.0	3.0
Residential Fixed Investment	-1.3	-4.0	-3.0	1.0	2.0	3.0	4.0	4.0
Exports	9.3	-3.5	4.5	5.5	6.0	6.5	6.5	6.0
Imports	-0.6	9.1	6.0	6.0	6.0	6.0	6.0	6.5
Federal Government	3.7	3.3	8.0	6.0	5.0	2.0	1.5	1.0
State & Local Governments	1.8	3.2	2.0	2.0	1.5	1.0	1.0	1.2

NOVEMBER 30, 2018

VALUE LINE SELECTION &amp; OPINION

## Value Line Forecast for the U.S. Economy

	Actual					Estimated				
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Gross Domestic Product and its Components (2012 Chain Weighted \$) Billions of Dollars</b>										
Final Sales	16386	16810	17254	17618	18011	18519	18989	19407	19737	20033
Total Consumption	11167	11494	11922	12248	12559	12901	13315	13662	13990	14298
Nonresidential Fixed Investment	2206	2357	2400	2404	2538	2710	2856	2981	3071	3148
Structures	486	537	521	495	517	542	557	576	594	605
Equipment & Software	1029	1099	1133	1116	1184	1268	1327	1372	1413	1456
Residential Fixed Investment	486	504	555	591	611	609	610	631	644	653
Exports	2270	2367	2381	2378	2450	2556	2675	2830	2915	3017
Imports	2802	2945	3105	3164	3309	3467	3673	3894	4088	4252
Federal Government	1215	1183	1183	1188	1196	1232	1293	1307	1294	1281
State & Local Governments	1845	1848	1904	1943	1932	1955	1991	2014	2034	2055
Gross Domestic Product	16785	17522	18219	18707	19487	20503	21549	22576	23580	24581
Real GDP (2012 Chain Weighted \$)	16495	16900	17387	17659	18051	18578	19091	19515	19886	20224
<b>Prices and Wages — Annual Rates of Change</b>										
GDP Deflator	1.6	1.8	0.9	1.6	2.0	2.2	2.4	2.6	2.5	2.5
CPI-All Urban Consumers	1.5	1.6	0.4	1.8	2.1	2.4	2.5	2.3	2.3	2.3
PPI-Finished Goods	1.2	1.9	-3.3	1.0	3.5	2.8	2.5	2.0	2.2	2.0
Employment Cost Index—Total Comp.	1.9	2.1	1.9	2.2	2.6	3.2	3.5	3.5	3.6	3.5
Productivity	0.0	0.7	0.7	1.0	1.0	1.9	1.5	1.2	1.3	1.2
<b>Production and Other Key Measures</b>										
Industrial Prod. (% Change, Annualized)	1.9	3.7	-3.3	-0.6	3.1	3.5	2.4	2.1	2.0	1.7
Factory Operating Rate (%)	74.1	75.3	75.8	74.6	74.8	75.7	76.0	75.9	75.5	75.0
Nonfarm Inven. Change (2012 Chain Weighted \$)	54.3	65.0	127.9	28.4	27.4	41.6	82.5	77.5	60.0	50.0
Housing Starts (Mill. Units)	0.93	1.00	1.11	1.18	1.21	1.26	1.29	1.33	1.30	1.27
Existing House Sales (Mill. Units)	5.07	4.92	5.23	5.44	5.54	5.30	5.35	5.56	5.45	5.40
Total Light Vehicle Sales (Mill. Units)	15.5	16.4	17.4	17.5	17.2	17.0	16.8	16.6	16.5	16.4
National Unemployment Rate (%)	7.4	6.2	5.3	4.9	4.3	3.9	3.4	3.5	3.6	3.8
Federal Budget Surplus (Unified, FY. \$Bill)	-680	-483	-479	-582	-681	-834	-950	-1010	-1100	-1200
Price of Oil (\$Bbl., U.S. Refiners' Cost)	100.47	92.23	48.40	40.60	50.69	64.55	65.00	68.00	72.00	75.00
<b>Money and Interest Rates</b>										
3-Month Treasury Bill Rate (%)	0.1	0.1	0.1	0.3	0.9	2.0	2.8	3.2	3.0	3.0
Federal Funds Rate (%)	0.1	0.1	0.1	0.4	1.0	1.8	2.8	3.3	3.4	3.3
10-Year Treasury Note Rate (%)	2.4	2.5	2.2	1.9	2.3	3.0	3.3	3.4	3.5	3.5
Long-Term Treasury Bond Rate (%)	3.5	3.3	2.9	2.6	2.9	3.2	3.6	3.8	3.8	3.8
AAA Corporate Bond Rate (%)	4.2	4.2	3.9	3.7	3.8	4.0	4.4	4.5	4.5	4.5
Prime Rate (%)	3.3	3.3	3.3	3.5	4.1	4.9	5.9	6.5	6.5	6.5
<b>Incomes</b>										
Personal Income (Annualized % Change)	1.1	4.4	3.8	3.0	4.6	4.3	4.8	4.7	4.3	4.0
Real Disp. Inc. (Annualized % Change)	-1.4	2.7	3.1	1.6	2.8	2.7	2.8	2.9	2.4	2.2
Personal Savings Rate (%)	4.8	4.8	7.6	6.7	6.7	6.6	5.9	6.3	6.0	6.0
After-Tax Profits (Annualized \$Bill)	1693	1694	1737	1737	1782	1867	1964	2043	2145	2252
Yr-to-Yr % Change	0.6	0.1	2.5	0.0	2.6	4.7	5.2	4.0	5.0	5.0
<b>Composition of Real GDP—Annual Rates of Change</b>										
Gross Domestic Product	1.8	2.5	2.9	1.6	2.2	2.9	2.8	2.2	1.9	1.7
Final Sales	1.6	2.6	2.6	2.1	2.2	2.8	2.5	2.2	1.7	1.5
Total Consumption	1.5	2.9	3.7	2.7	2.5	2.7	3.2	2.6	2.4	2.2
Nonresidential Fixed Investment	4.1	6.9	1.8	0.2	5.6	6.8	5.4	4.4	3.0	2.5
Structures	1.3	10.6	-3.0	-5.0	4.6	4.8	2.6	3.6	3.0	2.0
Equipment & Software	4.7	6.7	3.1	-1.5	6.1	7.1	4.7	3.4	3.0	3.0
Residential Fixed Investment	12.4	3.8	10.1	6.5	3.3	-0.3	0.1	3.5	2.0	1.5
Exports	3.6	4.3	0.6	-0.1	3.0	4.3	4.7	5.8	3.0	3.5
Imports	1.5	5.1	5.5	1.9	4.6	4.8	6.0	6.0	5.0	4.0
Federal Government	-5.5	-2.6	0.0	0.4	0.7	3.0	4.9	1.1	-1.0	-1.0
State & Local Governments	-0.3	0.2	3.0	2.0	0.5	1.2	1.9	1.2	1.0	1.0

## The Quarterly Economic Review

*Continued from front cover*

more deliberate lane by rising interest rates and higher tariffs, particularly if trade talks with China fail to bring results. Further, if the stock market fails to recover, that can dampen consumer confidence. Add in higher interest rates (especially charges on mortgages and auto loans), the likely rise in inflation from higher-priced imports, and the stronger dollar (which will make our exports even less competitive), and GDP growth may edge a bit lower in 2019, bringing the prospective increase in growth into the 2.8% range. But that still would be above the top of the earlier multi-year band.

**Meanwhile, there are a number of factors to consider in formulating our longer-range model.** First, there is fiscal policy. Here, the current year has been boosted by the business-friendly tax cut enacted in 2017. As the decade concludes, we would expect less of an impact from these reductions. Efforts to secure further tax relief, though, may falter given the changing makeup of the Congress. What we might get, with bipartisan support, would be increased infrastructure investment.

**Then there is monetary policy.** On this count, we expect further gradual tightening by the Federal Reserve, with a rate hike possible next month, as many as three more in 2019, and perhaps an additional one in 2020, bringing the federal funds target up to as much as 3.25%-3.50%. That would be a neutral level, which would give the central bank some flexibility should a recession ensue.

**Finally, there is the global growth outlook.** Here, our forecast is that the current headwinds in Europe and Asia (with economic output in Japan and Germany contracting in the third quarter) and the slower growth pace in China could combine to moderate the rate of non-U.S. growth next year. For now, we aren't forecasting a global recession anytime soon. Still, in referring to the slowdown overseas, Federal Reserve Chair Jerome Powell did acknowledge that "it is concerning."

**What are the risks to our forecast?** Domestically, a problem would be either too much or too little fiscal spending. That might cause

GDP to speed up by an undesirable degree and generate higher inflation, or slow more than desired, raising the odds of a recession. Also, there is the potential for a miscalculation by the Fed, in which it either tightens too aggressively, thus choking off growth, or proves lax in its efforts, allowing inflation to build. Globally, the risks would be a failure to tone down the contentious trade rhetoric, a further fraying of our relations with long-term friends, or a major worldwide economic downturn, with the recent strength in the dollar and the coincident plunge in oil prices playing critical roles. Absent these headwinds, our business upturn might possibly extend into the next decade.

### SOME SPECIFICS

**Economic Growth:** After a typically slow start this year, the economy really hit its stride in the second and third quarters, with GDP growth climbing by 4.2% and 3.5%, respectively (with the latter, as noted, subject to a pending revision). As indicated, the key contributor was the consumer who, emboldened by a healthier balance sheet, rising incomes, and a stronger asset base (largely from a further rise in home values and continued relatively high equity prices), spent more aggressively. This pattern has continued to a degree this quarter, with a solid recovery in retail sales in October, which augurs well for the holiday season. Recent further improvement in several industrial categories also is encouraging. On the other hand, higher tariffs and rising mortgage rates will exact a toll on certain sectors. In all, we look for growth of 2.7%-3.0% this quarter.

Thereafter, decelerating global growth, a stronger dollar (which, as noted, will further hurt our export business), fading fiscal stimulus, and a tightening in monetary policy could slow the expansion still more in 2019 (Chart 1). Set against this prospect are likely to be further modest reductions in the unemployment rate (which likely would keep consumer confidence high), the ongoing benefits from lower taxes, and a possible uptick in infrastructure spending (Chart 2). The end result is likely to be GDP growth of about 2.8% next year, a pace that would still be above trend. Growth then may ease further in 2020, edging down into a range of 2.0%-2.5%. Meanwhile, such an outcome would extend

the upturn past the one-decade mark, a rare feat in the postwar era of fast changing conditions. Low inflation and an accommodative Federal Reserve are high on the list of reasons for such durability.

**Inflation:** After years of unsettling price gyrations—especially in the 1970s and 1980s when inflation was sharply higher than today—the past decade has seen little pricing volatility. In fact, for much of this stretch, inflation was below the Federal Reserve's 2% target. To wit, the GDP deflator (a measure of the level of prices of all domestically produced, final goods and services in an economy), which held in a range of 0.8% to 2.0% between 2008 and 2017, should average 2.2% in 2018. Forecasts are for the deflator to climb to 2.4% in 2019. Meanwhile, the Consumer Price Index should average 2.4% and 2.5%, respectively, this year and next.

To be sure, such modest gains should not rattle the Federal Reserve, where for the 12 months through October, the CPI rose 2.5% (or just 2.1%, if we back out the volatile food and energy components to get the so-called core CPI). However, those increases and the prospective gains in 2019 are still above the 2% Fed target, suggesting the bank has a compelling case to push rates still higher in 2019 (Chart 3).

**Interest Rates:** The Federal Reserve's statutory mandate—as set by Congress—is to foster maximum employment and price stability. To fulfill this objective, in the severe recession of 2007-2009, the bank embarked on a major program of monetary accommodation. In the process, it brought interest rates (i.e., the federal funds target) down to near zero. Those efforts were successful, as ruinous deflation was avoided and long-term interest rates (including mortgages) held at manageable levels. Full employment also has been achieved, with the jobless rate at a half century low.

Now, having sidestepped an even more devastating recession a decade ago, and with the economy advancing at a healthy gait, the Fed has decided to step away from its massive accommodation and move toward a more neutral stance. That has involved enacting a succession of interest rates hikes. And,

# The Quarterly Economic Review

as noted, more probably will follow. Such efforts are aimed at striking a balance, in which growth slows sufficiently to keep prices stable, while the higher interest rates provide the bank with the potential to fight the next recession, by reducing them. In addition the hope is that growth does not slow to such a degree that the upturn ends prematurely. Our sense is that this delicate balancing act will be needed if our benign long-term economic scenario is to play out (Chart 4).

**Corporate Profits:** Here, as well, the latter years of the business upturn have seen an acceleration in earnings growth. That recent momentum followed a lengthy stretch of irregular gains. Stronger economic growth, greater pricing power, and business-friendly tax and regulatory treatment have been at the forefront of this storied breakout. And the good news is likely to continue, at least for a while. Thus after a trio of strong quarterly performances in 2018, indications are that the current three months will bring more good news from Corporate America, with the latest expectations suggesting that the year will end on a happy note. As with the economy, some

slowing in the bottom-line advance is likely in 2019 and further deceleration thereafter. Still, unless a recession ensues or the government alters its course measurably, the profit outlook should remain relatively bright out to 2021-2023. That would clearly be supportive for the stock market.

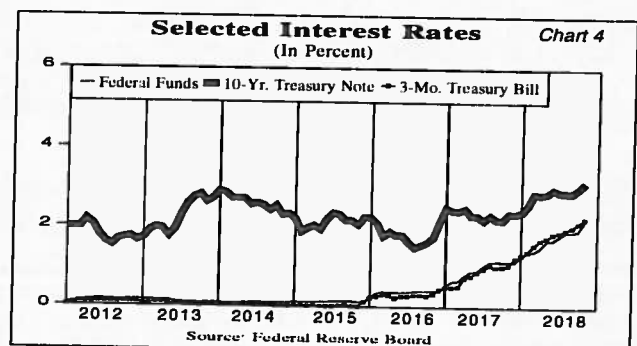
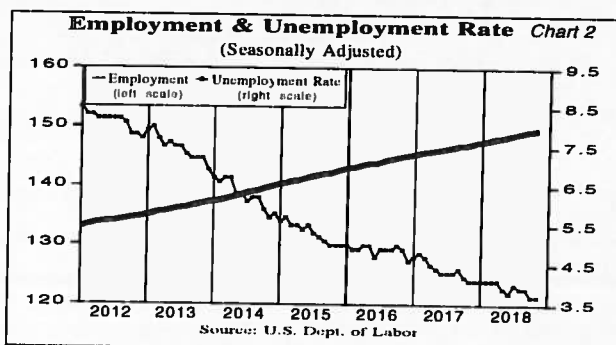
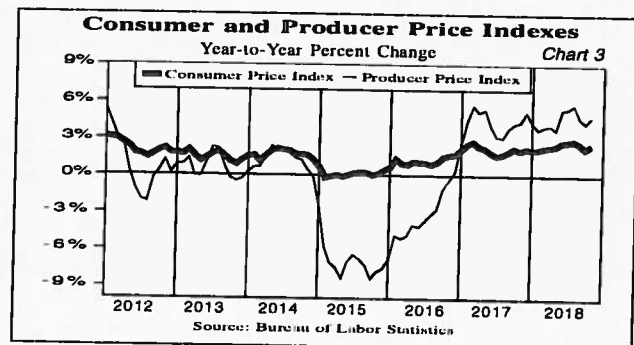
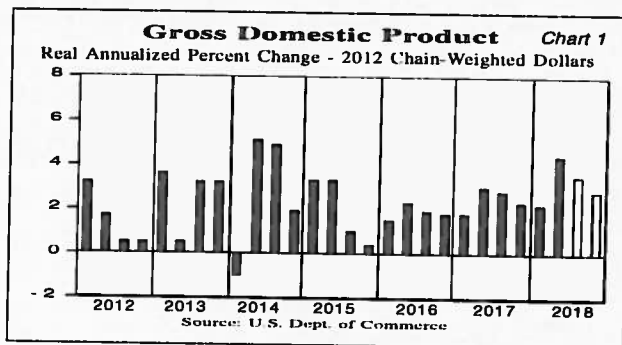
## THE STOCK MARKET

The long-standing beneficiaries of this cumulative good news on the economic and earnings fronts have been investors, who have participated in an historic bull market that has seen the Dow Jones Industrial Average more than quadruple since its 2009 lows. The other indexes have performed similarly, if not better.

However, the three months since our last Quarterly Economic Review have been problematic. Specifically, after a surge through late September, stocks have retreated with a few breaks in between. Several indexes, in fact, suffered a correction (a peak-to-trough decline of 10%) earlier this fall before rebounding briefly and then falling anew. Key factors in this October-November slide have been worries about global trade, the slowdown

in Europe and parts of Asia, political turmoil in the United Kingdom over efforts to save Brexit, fears the Fed might step too hard on the monetary brakes, and the uncertainties over prospects of divided government in Washington. How well this all plays out will be decisive in gauging whether this historic bull market will be sustained further. Given the compelling fundamentals still in place, our sense is that the Street can handle such headwinds. That said, the road ahead could be bumpy, and the recent step-up in market volatility figures to be a harbinger of things to come.

**Conclusion:** These clearly are challenging times for investors, and, as such, careful stock selection, with an emphasis on quality, will be most important. Should such care be taken, and assuming fiscal and monetary policies are constructive, the bull market should stay in place for a while longer, although, as recent troubling activity suggests, we may well see less assured returns going forward. Please refer to the inside back cover of *Selection & Opinion* for our statistically-based Asset Allocation Model's current reading. ■



## Model Portfolios: Recent Developments

### PORTFOLIO I

We are making three changes to Portfolio I this week. FedEx Corporation, Mondelez International, and Lowe's Companies are all being replaced now that these stocks are no longer timely. In their place, we are adding the shares of *Target Corporation*, *Medtronic plc*, and *U.S. Bancorp*. *Target* operates over 1,800 discount stores, most of which are in the United States. The retailer has reported solid bottom-line growth in the current year, and we expect this pattern will continue in the coming quarters. Efforts by *Target* to become more competitive on pricing, as well as the introduction of a number of exclusive brands, should continue to pay off. The stock's recent selloff, meantime, gives it a good entry point.

Meanwhile, *Medtronic* is a leading manufacturer of implantable biomedical devices, with sales to over 120 countries. Product innovation, acquisitions, and diversification into high-growth businesses ought to further benefit results here going forward. The company has gained FDA approval for several new products lately.

Finally, *U.S. Bancorp* is the parent company of U.S. Bank National Association. It had over 3,000 offices in 25 states at the end of 2017. Fee-based revenues account for a larger portion of the company's revenues than many of its peers, and its mix is more diversified than most rival banks.

### PORTFOLIO II

We have used the recent market volatility to add to three of our smaller positions within Portfolio II (*Alliance Resource*, *Delta Air Lines* and *United Parcel Service*), while taking some profits off the table in stocks that have significantly outperformed over the past few weeks (*Walgreens Boots Alliance*, *Cracker Barrel* and *Waste Management*).

As discussed last week, we have trimmed our position in *Cracker Barrel* shares, which have been moving higher since reporting lackluster results in September. Elsewhere, *Waste Management* and *Walgreens* shares have both outperformed lately, as investors

seem to be allocating more of their portfolios toward defensive stocks. At this point, we are taking some profits off the table here and spreading out our exposure more evenly across our 20 holdings.

Meanwhile, we are adding to our positions in *Delta* and *UPS* to take advantage of seasonal trading patterns in these stocks. Airline equities have a tendency to outperform the broader market between late October and late April as investors anticipate higher passenger counts. Looking ahead, both *Delta* and *UPS* could also benefit from lower jet fuel prices going forward once the recent drop in crude oil prices works its way through the supply chain. Finally, we like the yield on *Alliance Resource* units. Solid demand for coal in the export markets should also help give margins a boost going forward.

### PORTFOLIO III

Portfolio III has struggled against a difficult market backdrop of late. Though investors typically turn bullish as Thanksgiving kicks off the holiday season, that hasn't been the case this year. Indeed, stocks have remained under pressure, as concerns heighten about the Federal Reserve's next moves and the still-unresolved trade dispute between the U.S. and China. There's also some question about how the economy will look as the calendar shifts to 2019, though recent data suggest that growth will remain relatively solid.

In this environment, our technology holdings, including *Adobe*, *Apple*, and *Facebook*, have been the hardest hit. Our more defensive names, most notably *Hormel*, have been performing well, however, making up for some of the losses. The food maker just posted results for the fourth quarter of fiscal 2018 (ended October 27th) that topped expectations, with adjusted share net of \$0.51 coming in \$0.02 ahead of Wall Street's consensus view. Even better, business appears poised to improve further, despite commodity headwinds and trade uncertainty.

Meanwhile, we are making a change in the portfolio this week, selling our stake

in drug outfit *AbbVie*. (We made a nice profit in the issue, and are maintaining sector exposure with our *Celgene* position.) In *AbbVie*'s place, we are adding shares of *The Walt Disney Company*, the global entertainment heavyweight. The Dow component carries an attractive valuation, trading at about 15 times our share-earnings estimate for the year ahead. What's more, *Disney* seems well positioned for sustained growth, thanks to a new direct-to-consumer streaming offering and leveraging opportunities likely to stem from its pending deal for Twenty-First Century Fox assets. The core film and parks businesses ought to remain healthy, too.

### PORTFOLIO IV

The U.S. stock market remains under pressure. As we exit November, several of the leading benchmarks are back close to where they started 2018. Nonetheless, the economy and corporate sector remain in decent shape, overall, despite concerns about trade disputes and interest rates. In this climate, Portfolio IV, which holds high-quality dividend yielding stocks, has not been immune to market moves.

Recently, traders have been rotating capital out of volatile sectors and into more stable ones. For instance, technology stocks, which had been strong, have retreated. In this area, we hold *Intel*. Its shares are off their highs, but have held up well relative to the group. This is likely because *Intel* is one of the largest chip makers and, aided by acquisitions, has managed to remain competitive. Elsewhere, traders have become more upbeat about the utility sector in recent months, even though these high-yielding issues can be sensitive to changes in interest rates. Here, we hold shares of *Alliant Energy*, *Consolidated Edison*, and *Southern Company*. Finally, the broader financial sector seems to be gaining some favor with investors. In this area, we have positions in *Prudential Financial* and *Blackstone Group*. It is worth mentioning, particularly for income-oriented investors, that *Blackstone*, a leading alternative asset manager, currently offers investors a sizable 8% dividend yield. We are making no trades in Portfolio IV this week. ■

NOVEMBER 30, 2018

VALUE LINE SELECTION & OPINION

**PORTFOLIO I: STOCKS WITH ABOVE-AVERAGE YEAR-AHEAD PRICE POTENTIAL**  
 Primarily suitable for more aggressive investors

Ratings & Reports Page	Ticker	Company	Recent Price	Timeliness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
971	ALSN	Allison Transmission	47.35	2	3	10.1	1.3	1.05	B+	Auto Parts
758	ALL	Allstate Corp.	88.45	2	1	9.9	2.1	0.80	A+	Insurance (Prop/Cas.)
2634	GOOG	Alphabet Inc.	1020.00	2	1	20.9	Nil	1.10	A++	Internet
836	AMGN	Amgen	194.91	2	1	13.9	2.7	1.15	A++	Biotechnology
1972	STZ	Constellation Brands	193.39	2	3	19.2	1.6	0.75	A	Beverage
441	IT	Gartner Inc.	145.34	2	3	35.9	Nil	0.95	B++	Information Services
1140	HD	Home Depot	173.59	2	1	17.8	2.6	1.05	A++	Retail Building Supply
1917	HRL	Hormel Foods	45.36	1	2	23.5	1.9	0.65	A	Food Processing
810	IQV	IQVIA Holdings	115.44	1	3	19.3	Nil	0.90	B+	Medical Services
1799	ICE	Intercontinental Exch.	81.39	2	2	21.4	1.2	0.80	A	Brokers & Exchanges
2126	KAR	KAR Auction Svcs.	56.45	1	3	21.3	2.5	0.95	B+	Retail Automotive
811	LH	Laboratory Corp.	161.70	2	1	14.1	Nil	0.90	A	Medical Services
185	MDT	Medtronic plc	90.37	2	1	17.3	2.2	0.90	A++	Med Supp Invasive
953	MSI	Motorola Solutions	126.29	1	2	18.0	1.8	0.95	B++	Telecom. Equipment
1981	PEP	PepsiCo, Inc.	119.01	2	1	19.9	3.1	0.75	A++	Beverage
1840	SCI	Service Corp. Int'l	44.70	1	3	23.7	1.5	1.00	B+	Funeral Services
1143	SHW	Sherwin-Williams	415.26	2	2	20.3	0.8	1.10	A+	Retail Building Supply
2151	TGT	Target Corp.	77.79	2	3	14.1	3.3	0.95	A	Retail Store
350	UNP	Union Pacific	150.64	2	1	18.2	2.1	1.10	A++	Railroad
793	USB	U.S. Bancorp	55.00	2	1	13.2	2.7	1.00	A	Bank (Midwest)

To qualify for purchase in the above portfolio, a stock must have a Timeliness Rank of 1 or 2 and a Financial Strength Rating of at least B+. If a stock's Timeliness rank falls to 3, or lower, it will be automatically removed. Stocks in the above portfolio are selected and monitored by Michael F. Napoli, Senior Analyst.

**PORTFOLIO II: STOCKS FOR INCOME AND POTENTIAL PRICE APPRECIATION**  
 Primarily suitable for more conservative investors

Ratings & Reports Page	Ticker	Company	Recent Price	Timeliness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
918	T	AT&T Inc.	30.35	3	1	8.4	6.7	0.75	A++	Telecom. Services
1583	ARLP	Alliance Resource	19.29	2	3	7.2	10.9	1.15	B+	Metals & Mining (Div.)
2510	CM.TO	Can. Imperial Bank	113.56	2	1	9.3	4.9	0.85	A+	Bank
506	CVX	Chevron Corp.	119.42	2	1	14.5	3.8	1.25	A++	Petroleum (Integrated)
357	CBRL	Cracker Barrel	174.85	3	2	19.1	2.9	0.75	A	Restaurant
308	DAL	Delta Air Lines	56.19	3	3	9.4	2.5	1.20	B+	Air Transport
1975	DEO	Diageo plc	143.15	3	1	21.9	2.3	0.95	A+	Beverage
630	EPD	Enterprise Products	26.88	1	3	12.1	6.5	1.30	B++	Pipeline MLPs
734	ITW	Illinois Tool Works	133.99	4	1	16.9	3.0	1.10	A++	Metal Fabricating
575	IFF	Int'l Flavors & Frag.	140.59	2	1	21.8	2.1	0.90	A+	Chemical (Specialty)
215	JNJ	Johnson & Johnson	147.73	2	1	20.7	2.5	0.85	A++	Med Supp Non-Invasive
1922	KHC	Kraft Heinz Co.	51.89	4	2	13.3	4.9	0.90	A+	Food Processing
718	LMT	Lockheed Martin	294.59	3	1	17.0	3.0	0.75	A++	Aerospace/Defense
1141	LOW	Lowe's Cos.	91.35	3	2	16.3	2.2	1.05	A+	Retail Building Supply
1928	MDLZ	Mondelez Int'l	44.43	3	2	17.2	2.4	1.00	A	Food Processing
1542	O	Realty Income Corp.	63.97	3	2	49.2	4.2	0.60	A	R.E.I.T.
2318	RCL	Royal Caribbean	107.02	3	3	11.3	2.6	1.10	B++	Recreation
316	UPS	United Parcel Serv.	111.29	3	1	15.1	3.5	0.90	A	Air Transport
968	WBA	Walgreens Boots	81.92	3	2	13.0	2.1	0.85	A+	Pharmacy Services
418	WM	Waste Management	92.65	2	1	21.4	2.0	0.75	A	Environmental

To qualify for purchase in the above portfolio, a stock must have a yield that is in the top half of the Value Line universe and a Safety Rank of 3 or better. Stocks are selected and monitored by Wayne Nef, Senior Analyst.

**PORTFOLIO III: STOCKS WITH LONG-TERM PRICE GROWTH POTENTIAL**

Primarily suitable for investors with a 3- to 5-year horizon

Ratings & Reports Page	Ticker	Company	Recent Price	Timeliness	Safety	P/E	Yield%	Beta	3- to 5-Yr. Apprec. Potential	Industry Name
2588	ADBE	Adobe Systems	219.69	3	2	38.2	Nil	1.15	30-80%	Computer Software
758	ALL	Allstate Corp.	88.45	2	1	9.9	2.1	0.80	70-105	Insurance (Prop/Cas.)
1992	MO	Altria Group	55.68	4	2	13.4	5.7	0.65	45-100	Tobacco
1394	AAPL	Apple Inc.	185.86	1	2	14.0	1.7	1.00	50-105	Computers/Peripherals
2120	AN	AutoNation, Inc.	37.57	4	3	7.8	Nil	1.10	115-220	Retail Automotive
2508	BK	Bank of NY Mellon	50.12	4	2	11.4	2.2	1.10	60-120	Bank
1614	CELG	Celgene Corp.	69.40	3	3	14.0	Nil	1.20	80-175	Drug
436	CSGP	CoStar Group	350.09	2	3	39.6	Nil	1.15	35-105	Information Services
2329	DIS	Disney (Walt)	115.42	2	1	16.6	1.5	0.95	25-55	Entertainment
2641	FB	Facebook Inc.	131.55	3	3	16.4	Nil	1.00	145-270	Internet
309	FDX	FedEx Corp.	226.30	3	1	12.9	1.1	1.15	35-65	Air Transport
1917	HRL	Hormel Foods	45.36	1	2	23.5	1.9	0.65	0-30	Food Processing
1358	INTC	Intel Corp.	48.00	3	1	11.2	2.5	1.05	65-100	Semiconductor
1166	IP	Int'l Paper	46.23	2	3	8.7	4.3	1.20	95-190	Paper/Forest Products
2111	PVH	PVH Corp.	110.90	3	3	11.3	0.1	1.10	50-125	Apparel
413	RSG	Republic Services	76.51	2	2	24.3	2.0	0.75	10-50	Environmental
313	LUV	Southwest Airlines	52.39	3	3	11.8	1.2	1.15	35-100	Air Transport
373	SBUX	Starbucks Corp.	67.91	2	1	26.7	2.2	0.90	40-70	Restaurant
821	UNH	UnitedHealth Group	266.05	2	1	19.5	1.4	1.00	0-20	Medical Services
2581	V	Visa Inc.	134.76	2	1	26.1	0.7	0.95	15-35	Financial Svcs. (Div.)

To qualify for purchase in the above portfolio, a stock must have above-average 3- to 5-year price-appreciation potential. As the price of a stock in this Portfolio rises, the computed appreciation potential may fall, it may still be held. This portfolio is most appropriate for investors focused on long-term capital gains. Stocks in the above portfolio are selected and monitored by Justin Hellman, Editorial Analyst.

**PORTFOLIO IV: STOCKS WITH ABOVE-AVERAGE DIVIDEND YIELDS**

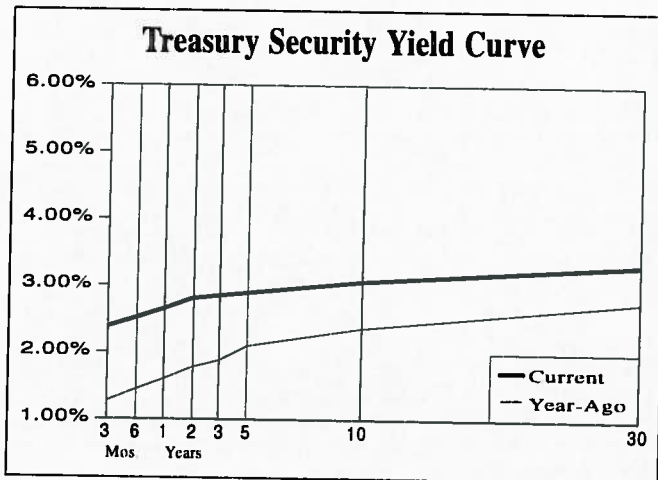
Primarily suitable for investors interested in current income

Ratings & Reports Page	Ticker	Company	Recent Price	Timeliness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
918	T	AT&T Inc.	30.35	3	1	8.4	6.7	0.75	A++	Telecom. Services
903	LNT	Alliant Energy	45.38	2	2	21.2	3.0	0.60	A	Electric Util. (Central)
2661	BX	Blackstone Group LP	31.80	2	3	9.5	8.1	1.30	B++	Public/Private Equity
706	BA	Boeing	320.94	3	1	18.5	2.4	1.10	A++	Aerospace/Defense
1993	BTI	Brit. Am. Tobacco ADR	34.62	3	2	7.5	6.6	1.00	B++	Tobacco
153	CAT	Caterpillar Inc.	125.98	3	2	10.5	2.7	1.30	A+	Heavy Truck & Equip
1969	KO	Coca-Cola	50.51	3	1	23.1	3.2	0.70	A++	Beverage
138	ED	Consol. Edison	77.50	2	1	18.1	3.8	0.40	A+	Electric Utility (East)
982	ETN	Eaton Corp. plc	73.48	3	2	13.1	3.6	1.20	A+	Auto Parts
1358	INTC	Intel Corp.	48.00	3	1	11.2	2.5	1.05	A++	Semiconductor
1195	KMB	Kimberly-Clark	110.45	3	1	16.0	3.6	0.75	A++	Household Products
578	LYB	LyondellBasell Inds.	92.78	2	3	8.8	4.1	1.40	A	Chemical (Specialty)
366	MCD	McDonald's Corp.	186.72	3	1	23.6	2.5	0.80	A++	Restaurant
1622	MRK	Merck & Co.	76.35	1	1	17.2	2.9	0.95	A++	Drug
2628	PAYX	Paychex, Inc.	68.41	1	1	24.0	3.4	1.00	A	IT Services
1630	PFE	Pfizer, Inc.	44.18	1	1	19.9	3.1	0.90	A++	Drug
1561	PRU	Prudential Fin'l	91.65	3	3	7.3	3.9	1.30	B++	Insurance (Life)
148	SO	Southern Co.	47.04	3	2	16.3	5.2	0.50	A	Electric Utility (East)
316	UPS	United Parcel Serv.	111.29	3	1	15.1	3.5	0.90	A	Air Transport
418	WM	Waste Management	92.65	2	1	21.4	2.0	0.75	A	Environmental

To qualify for purchase in the above portfolio, a stock must have a yield that is at least 1% above the median for the Value Line universe, and a Financial Strength Rating of at least B+. Stocks are selected and monitored by Adam Rosner, Editorial Analyst.

## Selected Yields

TAXABLE	Recent (11/20/18)	3 Months Ago (8/22/18)	Year Ago (11/21/17)	TAXABLE	Recent (11/20/18)	3 Months Ago (8/22/18)	Year Ago (11/21/17)
<b>Market Rates</b>				<b>Corporate Bonds</b>			
Discount Rate	2.50	2.25	1.75	Financial (10-year) A	4.16	3.85	3.35
Federal Funds	2.00-2.25	1.75-2.00	1.00-1.25	Industrial (25/30-year) A	4.50	4.14	3.78
Prime Rate	5.25	5.00	4.25	Utility (25/30-year) A	4.54	4.17	3.81
30-day CP (A1/P1)	2.27	2.01	1.25	Utility (25/30-year) Baa/BBB	4.88	4.51	4.08
3-month LIBOR	2.65	2.31	1.45	S&P 500 High Yield Corp. Bond Index	5.67	5.08	4.51
<b>U.S. Treasury Securities</b>				<b>Foreign Bonds (10-Year)</b>			
3-month	2.38	2.07	1.27	Canada	2.35	2.26	1.92
6-month	2.51	2.23	1.44	Germany	0.35	0.34	0.35
1-year	2.65	2.42	1.60	Japan	0.10	0.10	0.03
5-year	2.89	2.70	2.10	United Kingdom	1.38	1.27	1.27
10-year	3.06	2.82	2.36	<b>Mortgage-Backed Securities</b>			
10-year (inflation-protected)	1.14	0.78	0.53	GNMA 5.5%	3.75	3.46	2.52
30-year	3.32	2.98	2.76	FHLMC 5.5% (Gold)	4.11	3.61	2.93
30-year Zero	3.35	3.00	2.82	FNMA 5.5%	3.86	3.54	2.69
<b>Common Stocks</b>				<b>Preferred Stock</b>			
VL Stocks (Median)	2.20	2.00	2.00	Utility A	6.15	6.02	5.81
DJ Industrials (12-mo. est.)	2.50	2.30	2.30	Financial BBB	6.12	5.89	5.69
VL Utilities	3.30	3.30	3.30	Financial Adjustable A	5.52	5.52	5.52



### TAX-EXEMPT

<b>Bond Buyer Indexes</b>			
20-Bond Index (GOs)	4.30	3.95	3.51
25-Bond Index (Revs)	4.79	4.45	3.97
<b>General Obligation Bonds (GOs)</b>			
1-year AAA	1.93	1.51	1.19
1-year A	2.21	1.91	1.30
5-year AAA	2.23	1.98	1.61
5-year A	2.58	2.61	1.88
10-year AAA	2.64	2.45	2.07
10-year A	3.14	3.20	2.55
25/30-year AAA	3.26	2.95	2.74
25/30-year A	3.86	4.02	3.53
<b>Revenue Bonds (Revs) (15 Years)</b>			
Education AA	3.19	3.00	2.72
Electric AA	3.36	2.91	2.61
Water/Sewer AA	3.22	2.96	2.66
Hospital AA	3.38	3.18	2.89
Toll Road AA	3.23	3.03	2.72

Source: Bloomberg Finance L.P.

## Federal Reserve Data

### BANK RESERVES (Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Level Over the Last..		
	11/7/18	10/24/18	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1668190	1715582	-47392	1739259	1800014	1941782
Borrowed Reserves	144	197	-53	245	199	118
Net Free/Borrowed Reserves	1668046	1715385	-47339	1739014	1799815	1941664

### MONEY SUPPLY (One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Annual Growth Rates Over the Last..		
	11/5/18	10/29/18	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	3741.8	3740.1	1.7	8.2%	4.9%	4.2%
M2 (M1+savings+small time deposits)	14275.2	14293.5	-18.3	3.1%	4.3%	3.7%

Source: United States Federal Reserve Bank



## Closing Stock Market Averages as of Press Time

	11/14/2018	11/20/2018	1 week	12 months
Dow Jones Industrial Average	25080.50	24465.64	-2.5%	+4.4%
Standard & Poor's 500	2701.58	2641.89	-2.2%	+2.3%
N.Y. Stock Exchange Composite	12275.49	12048.66	-1.8%	-2.2%
NASDAQ Composite	7136.39	6908.82	-3.2%	+1.7%
NASDAQ 100	6769.87	6526.96	-3.6%	+3.5%
Amex Major Market Index	2497.76	2435.87	-2.5%	-5.5%
Value Line (Geometric)	526.92	514.59	-2.3%	-5.6%
Value Line (Arithmetic)	5966.15	5833.36	-2.2%	-0.8%
London (FT-SE 100)	7033.79	6947.92	-1.2%	-6.0%
Tokyo (Nikkei)	21846.48	21583.12	-1.2%	-3.0%
Russell 2000	1502.51	1469.01	-2.2%	-2.3%

## Major Insider Transactions<sup>†</sup>

### PURCHASES

Latest Full-Page Report	Company	Insider, Title	Date	Shares Traded	Shares Held	Price Range	Recent Price
2440	Air Products & Chem.	S. Ghasemi, Chair.	11/12/2018	20,000	408,652	160.11	159.89
1512	Amer. Homes 4 Rent	T. H. Gustavson, Dir.	11/9/18-11/13/18	355,998	17,150,996	\$20.48-\$20.50	19.74
628	Energy Transfer LP	K. L. Warren, CEO	11/12/18-11/13/18	2,000,000	39,542,084	\$15.26-\$15.64	14.80
628	Energy Transfer LP	R. C. Davis, Dir.	11/12/2018	316,000	27,052,558	15.80	14.80
1528	GEO Group (The)	G. C. Zoley, Chair.	11/9/18-11/12/18	120,240	1,700,000	\$22.07-\$22.67	22.37
393	Howard Hughes Corp.	D. Weinreb, Dir.	11/9/2018	50,000	1,325,177	109.39	109.69
1196	Newell Brands	B. Icahn, Dir.	11/12/2018	100,000	400,285	\$20.00-\$20.05	21.42

### SALES

Latest Full-Page Report	Company	Insider, Title	Date	Shares Traded	Shares Held	Price Range	Recent Price
963	CVS Health	T. A. Brennan, EVP	11/14/2018	14,229	70,494	82.00	78.55
2328	Discovery, Inc.	K. W. Lowe, Dir.	11/13/2018	58,000	1,202,403	\$28.86-\$28.90	30.47
2328	Discovery, Inc.	G. Wiedenfels, CFO	11/12/2018	50,000	10,000	29.47	30.47
808	Humana Inc.	R. A. Beveridge, Officer	11/8/2018	4,622	10,621	341.06	310.40
2360	Marriott Int'l	E. Hippeau, Dir.	11/13/2018	9,000	21,762	116.23	116.50
1829	salesforce.com	M. Benioff, Chair.	11/12/18-11/16/18	25,000	32,130,800	\$127.15-\$136.39	121.01
2585	Willis Towers Watson plc	J. J. Gebauer, Officer	11/13/2018	10,000	79,867	160.15	160.26

\* Beneficial owner of more than 10% of common stock

† Includes only large transactions in U.S.-traded stocks; excludes shares held in the form of limited partnerships, excludes options & family trusts

## Market Monitor

Valuations and Yields	11/20	11/14	13-week range	50-week range	Last market top (9-20-2018)	Last market bottom (3-9-2009)
Median price-earnings ratio of VL stocks	16.4	16.5	16.4 - 18.5	16.4 - 21.1	18.2	10.3
P/E (using 12-mo. est'd EPS) of DJ Industrials	15.1	15.4	15.1 - 17.1	15.1 - 21.3	16.8	17.3
Median dividend yield of VL stocks	2.2%	2.2%	2.0 - 2.3%	1.8 - 2.3%	2.0%	4.0%
Div'd yld. (12-mo. est.) of DJ Industrials	2.5%	2.4%	2.2 - 2.5%	2.1 - 2.5%	2.3%	4.0%
Prime Rate	5.3%	5.3%	5.0 - 5.3%	4.5 - 5.3%	5.3%	3.3%
Fed Funds	2.2%	2.2%	1.9 - 2.2%	1.2 - 2.2%	1.9%	0.2%
91-day T-bill rate	2.4%	2.4%	2.1 - 2.4%	1.3 - 2.4%	2.2%	0.3%
AAA Corporate bond yield	4.2%	4.2%	3.9 - 4.2%	3.5 - 4.2%	4.0%	5.5%
30-year Treasury bond yield	3.3%	3.4%	3.0 - 3.4%	2.7 - 3.4%	3.2%	3.7%
Bond yield minus average earnings yield	-1.9%	-1.9%	-1.9 - -1.4%	-1.9 - -1.2%	-1.5%	-4.3%

Market Sentiment	11/20	11/14	13-week range	50-week range	Last market top (9-20-2018)	Last market bottom (3-9-2009)
Short interest/avg. daily volume (5 weeks)	13.9	14.1	13.9 - 19.1	13.8 - 19.1	16.5	8.6
CBOE put volume/call volume	.92	1.10	.86 - 1.18	.67 - 1.33	.92	.93

### VALUE LINE ASSET ALLOCATION MODEL *(Based only on economic and financial factors)*

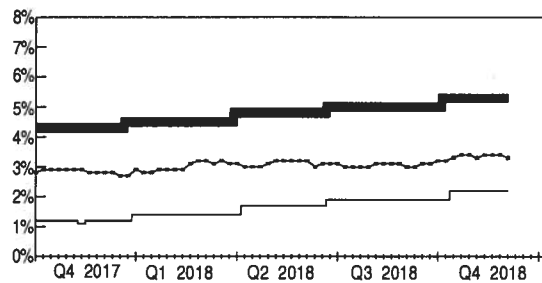
	Current (last adjusted at market open 2/20/18)	Previous (before 2/20/18)
Common Stocks	55%-65%	60%-70%
Cash and Treasury Issues	45%-35%	40%-30%

### INDUSTRY PRICE PERFORMANCE LAST SIX WEEKS ENDING 11/19/2018

7 Best Performing Industries	
Electric Utility (East)	+4.1%
Electric Util. (Central)	+3.1%
Semiconductor Equip.	+3.0%
Precious Metals	+2.7%
Water Utility	+2.1%
Retail/Wholesale Food	+1.6%
Packaging & Container	+1.5%

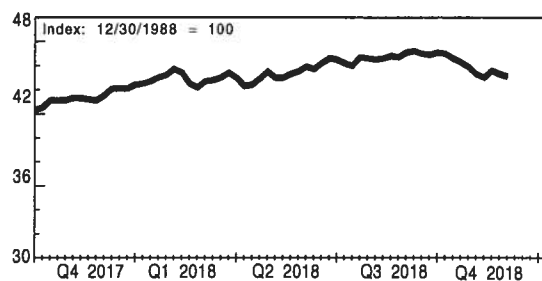
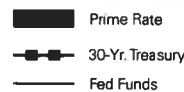
  

7 Worst Performing Industries	
Oilfield Svcs/Equip.	-30.2%
Natural Gas (Div.)	-20.8%
Petroleum (Producing)	-18.9%
Metal Fabricating	-14.7%
Funeral Services	-14.7%
Public/Private Equity	-14.1%
Petroleum (Integrated)	-13.7%



### INTEREST RATES

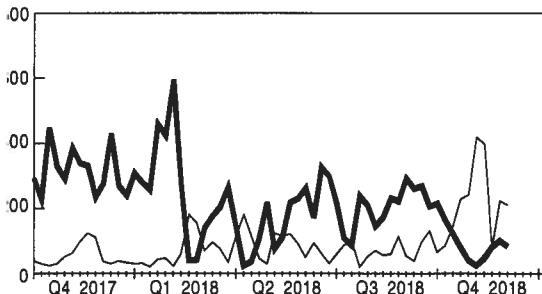
	Recent	Previous Week
Prime Rate	5.3%	5.3%
30-Yr. Treasury	3.3%	3.4%
Fed Funds	2.2%	2.2%



### VALUE LINE UNIVERSE

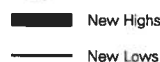
	Recent	Previous Week
Advances	725	570
Declines	969	1127
Issues Covered	1707	1706
Market Value (\$ Trillion)	33.868	34.257

The corresponding change in the Value Line Arithmetic Average\* is -6.1%



### VALUE LINE UNIVERSE

	Recent	Previous Week
New Highs	84	101
New Lows	211	223

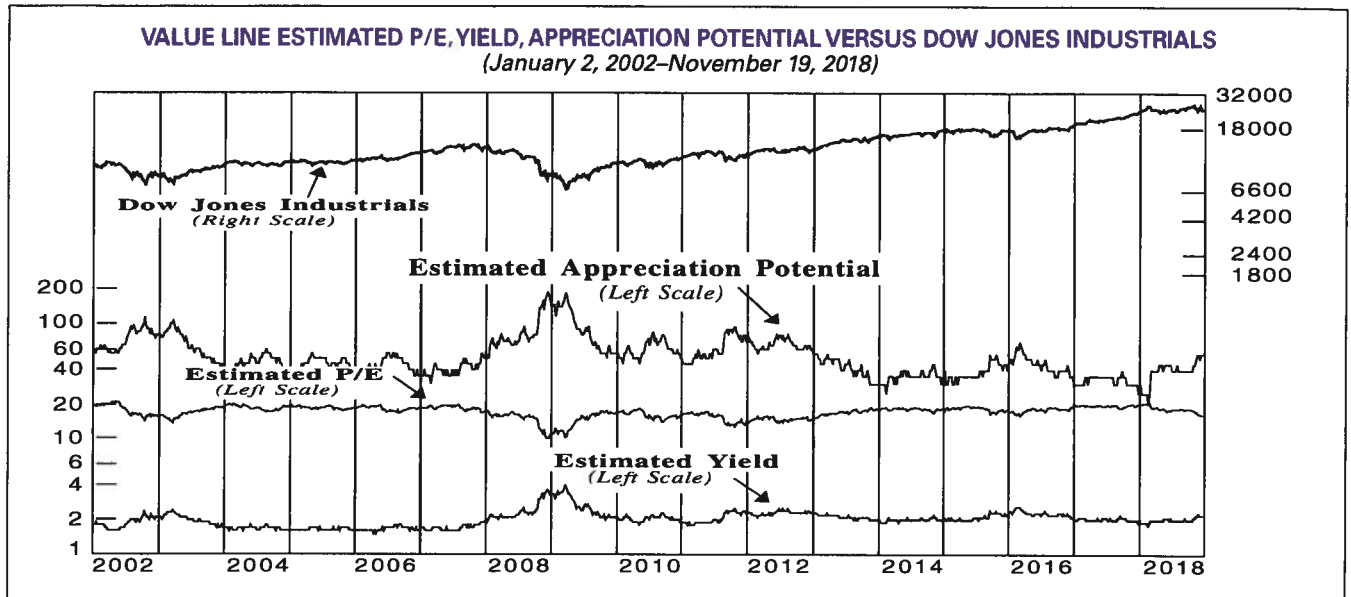


### CHANGES IN FINANCIAL STRENGTH RATINGS

Company	Prior Rating	New Rating	Ratings & Reports Page
Enable Midstream	B	B+	626
Enterprise Products	B+	B++	630
L Brands	B+	C++	2210 *
Targa Resources	B+	B	546

\*Supplementary report in this week's Ratings & Reports.

## Stock Market Averages



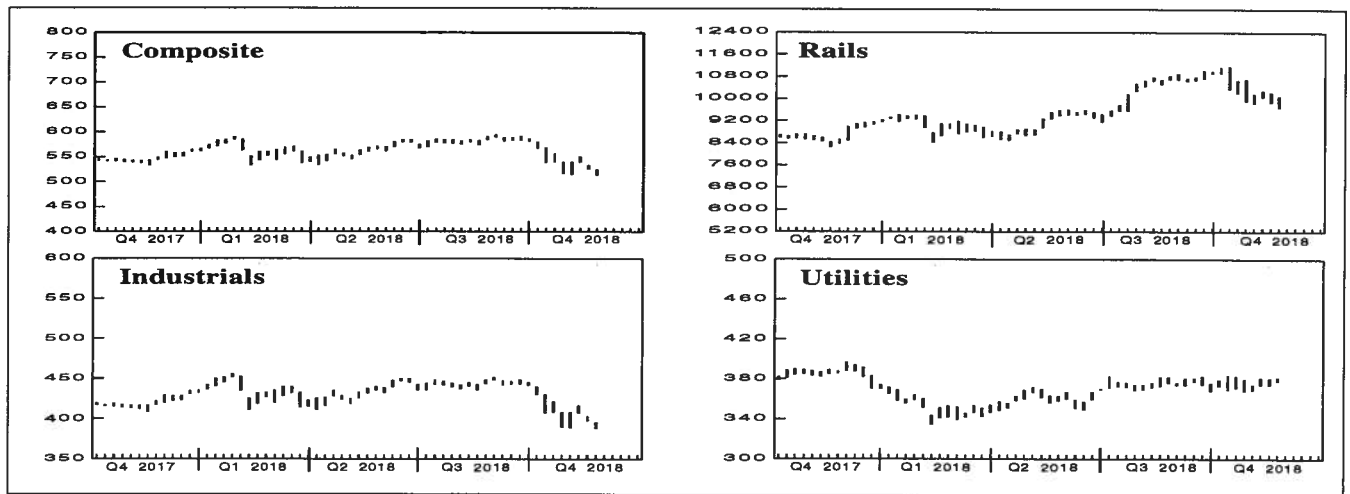
### THE VALUE LINE GEOMETRIC AVERAGES

	Composite 1681 stocks	Industrials 1600 stocks	Rails 11 stocks	Utilities 70 stocks
11/14/2018	526.92	397.88	9923.02	375.46
11/15/2018	532.36	402.16	10133.80	374.62
11/16/2018	532.75	402.20	10215.65	380.09
11/19/2018	524.37	395.52	10091.02	381.25
11/20/2018	514.59	387.99	9713.29	378.50
<b>% Change last 4 weeks</b>	<b>-3.7%</b>	<b>-4.0%</b>	<b>-6.9%</b>	<b>+0.7%</b>

### THE DOW JONES AVERAGES

	Arithmetic* Composite 1681 stocks	Composite 65 stocks	Industrials 30 stocks	Transportation 20 stocks	Utilities 15 stocks
11/14/2018	5966.15	8349.16	25080.50	10456.61	724.57
11/15/2018	6029.45	8408.19	25289.27	10615.30	715.02
11/16/2018	6035.68	8449.46	25413.22	10583.60	729.43
11/19/2018	5942.55	8366.60	25017.44	10534.46	732.29
11/20/2018	5833.36	8181.95	24465.64	10212.94	727.65
<b>% Change last 4 weeks</b>	<b>-2.9%</b>	<b>-1.9%</b>	<b>-2.9%</b>	<b>-0.2%</b>	<b>-1.3%</b>

### WEEKLY VALUE LINE GEOMETRIC AVERAGES\* (October 2, 2017–November 20, 2018)



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FISCAL YEAR 2019

**EFFICIENT, EFFECTIVE, ACCOUNTABLE**

**AN  
AMERICAN  
BUDGET**

---

**BUDGET OF THE U.S. GOVERNMENT**

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## THE BUDGET DOCUMENTS

*Budget of the United States Government, Fiscal Year 2019* contains the Budget Message of the President, information on the President's priorities, and summary tables.

*Analytical Perspectives, Budget of the United States Government, Fiscal Year 2019* contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective. This volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; information on Federal borrowing and debt; baseline or current services estimates; and other technical presentations.

The *Analytical Perspectives* volume also has supplemental materials that are available on the internet at [www.whitehouse.gov/omb/analytical-perspectives/](http://www.whitehouse.gov/omb/analytical-perspectives/) and on the Budget CD-ROM. These supplemental materials include tables showing the budget by agency and account and by function, subfunction, and program.

*Appendix, Budget of the United States Government, Fiscal Year 2019* contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committees. The *Appendix* contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language; budget schedules for each account; legislative proposals; narrative explanations of each budget account; and proposed general provisions applicable to the appropriations of entire agencies or group of agencies.

Information is also provided on certain activities whose transactions are not part of the budget totals.

### ELECTRONIC SOURCES OF BUDGET INFORMATION

The information contained in these documents is available in electronic format from the following sources:

**Internet.** All budget documents, including documents that are released at a future date, spreadsheets of many of the budget tables, and a public use budget database are available for downloading in several formats from the internet at [www.whitehouse.gov/omb/budget/](http://www.whitehouse.gov/omb/budget/). Links to documents and materials from budgets of prior years are also provided.

**Budget CD-ROM.** The CD-ROM contains all of the printed budget documents in fully indexed PDF format along with the software required for viewing the documents.

The Internet and CD-ROM also include many of the budget tables in spreadsheet format, and supplemental materials that are part of the *Analytical Perspectives* volume. It also includes *Historical Tables* that provide data on budget receipts, outlays, surpluses or deficits, Federal debt, and Federal employment over an extended time period, generally from 1940 or earlier to 2019 or 2023.

For more information on access to electronic versions of the budget documents (except CD-ROMs), call (202) 512-1530 in the D.C. area or toll-free (888) 293-6498. To purchase the Budget CD-ROM or printed documents call (202) 512-1800.

### GENERAL NOTES

1. All years referenced for budget data are fiscal years unless otherwise noted. All years referenced for economic data are calendar years unless otherwise noted.
2. At the time of this writing, none of the full-year appropriations bills for 2018 have been enacted, therefore, the programs and activities normally provided for in the full-year appropriations bills were operating under a continuing resolution (Public Law 115-56, division D, as amended). In addition, the Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017 (Public Law 115-72, division A) provided additional appropriations for 2018 for certain accounts within the Departments of Agriculture, Homeland Security, and the Interior. The Department of Defense Missile Defeat and Defense Enhancements Appropriations Act, 2018 (Public Law 115-96, division B) also provided additional appropriations for 2018 for certain accounts within the Department of Defense. Accordingly, references to 2018 spending in the text and tables reflect the levels provided by the continuing resolution and, if applicable, Public Laws 115-72 (division A) and 115-96 (division B).
3. The Budget does not incorporate the effects of Public Law 115-120, including the reauthorization of the Children's Health Insurance Program and amendments to the tax code in that law.
4. Detail in this document may not add to the totals due to rounding.

### U.S. GOVERNMENT PUBLISHING OFFICE, WASHINGTON 2018

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ISBN 978-0-16-094480-2

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# THE BUDGET MESSAGE OF THE PRESIDENT

TO THE CONGRESS OF THE UNITED STATES:

In one year of working together, we have laid the foundation for a new era of American Greatness. We have boosted economic growth, created more than two million jobs, and added nearly \$5 trillion in new wealth to the stock market. Unemployment is at a 17-year low, wages are rising, and jobs are returning to America. Starting this month, hardworking Americans are going to see increased take home pay because of the massive tax cuts and tax reform legislation we enacted at the end of last year.

America is back to winning again. A great spirit of optimism continues to sweep across our Nation. Americans can once again be truly confident that our brightest days are ahead of us.

This year's Budget builds upon our incredible successes over the past year and rests on the following pillars of reform:

**Ending Wasteful Spending.** The United States is laboring under the highest level of debt held by the public since shortly after the Second World War. The current fiscal path is unsustainable, and future generations deserve better. The Budget makes the hard choices needed to stop wasteful spending, lower the national debt, and focus Government on what matters most—protecting the Nation.

**Expanding Economic Growth and Opportunity.** The Budget continues our efforts to grow the economy, create millions of new jobs, and raise wages. To accompany our efforts to cut spending and implement massive tax cuts and reforms for American families, workers, and businesses, we will continue to relentlessly target unnecessary regulations for elimination. We will also continue driving America toward energy dominance and making the United States a net energy exporter by 2026.

The Budget also redefines what is possible, by putting the American economy on a path to sustainable 3-percent long-term economic growth. Over the next decade, a steady rate of 3-percent economic growth will infuse trillions of additional dollars into our economy, fueling the dreams of the American people and sustaining a new era of American Greatness.

**Preserving Peace Through Strength.** The Budget recognizes that we confront political, economic, and military adversaries and competitors that have required us to adjust our national security strategy. Foremost, the Budget rebuilds and modernizes the military—to fulfill a core constitutional responsibility of the Federal Government. The Budget provides resources to enhance missile defense and to build the planes, tanks, warships, and cyber tools that the brave men and women who defend us need to deter aggression and, when necessary, to fight and win. Most importantly, the Budget provides funds to increase the size of our Armed Forces and to give our men and women in uniform a well-earned pay raise. The Budget recognizes that we must deftly employ all of our tools of statecraft—diplomatic, intelligence-related, military, and economic—to compete and

advance American influence. A world that supports American interests and reflects our values makes America more secure and prosperous.

**Building the Wall, Dismantling Transnational Criminal Organizations, and Enforcing Our Immigration Laws.** The Budget reflects my Administration's serious and ongoing commitment to fully secure our border, take the fight to criminal gangs like MS-13, and make our immigration system work for Americans. The Budget provides funding for a wall on our Southwest border and additional resources for law enforcement at the Departments of Homeland Security and Justice. The Budget also funds an increase in the number of Immigration and Customs Enforcement officers, Border Patrol agents, and immigration judges to improve enforcement at the border and within the United States.

**Rebuilding our Infrastructure.** World-class infrastructure is possible for the American people. Together we will build stunning new bridges, railways, waterways, tunnels, water treatment facilities, and highways. The Budget reflects a new vision for American infrastructure that would generate \$1 trillion in infrastructure investment and speed its delivery to the American people.

**Supporting American Working Families.** Due to changes in family structures, labor force composition, and participation rates, the demands on American families have never been more complex or expensive to address. In addition to the middle income tax relief achieved with the passage of tax reform, the Budget reflects the importance of investing in American working families by making paid family leave available to new parents, investing in effective approaches to skills training like formal apprenticeships, and maintaining Federal funding and leveraging additional State dollars for programs that help America's working families access and afford child care. With these strategic investments, the Budget empowers Americans to thrive in our modern economy.

**Protecting Our Veterans.** The Budget fulfills our promise and obligation to care for our veterans and their families—men and women who answered our Nation's call for help and sacrificed so much to defend us. Our veterans have earned nothing less than the absolute best care and benefits after their service has ended, and the Budget provides the funding necessary to treat them with the honor and respect they deserve. It is our Nation's duty to ensure veterans have access to the medical treatment they need, when they need it—and that they have a choice when it comes to their care. The Budget also ensures that veterans receive training and support to re-enter the workforce and find well-paying jobs.

**Combatting Opioid Addiction.** More Americans died from drug overdoses in 2016 than those who lost their lives in the Vietnam War. Opioids caused the overwhelming majority of these deaths, which is why my Administration has declared a nationwide Public Health Emergency with respect to opioids. The Budget reflects a solemn and unshakable commitment to liberate communities from the scourge of opioids and drug addiction.

**Fighting High Medical Drug Prices.** Many patients face illness that could be cured or managed with the right medical drugs. But the prices for the drugs they need are often exorbitant. Unnecessarily high drug prices force many patients to choose between going without the medicines they need or making tremendous financial sacrifices. In addition, taxpayers all too often are left to pay inflated prices for drugs for patients who obtain them through Government programs. The Budget proposes new strategies to address high drug prices and increase access to drugs by addressing perverse payment incentives and exposing drug companies to more aggressive competition, all while continuing to promote innovation and extend American dominance in the pharmaceutical field.

**Moving from Welfare to Work.** Millions of our fellow Americans have been robbed of the dignity and independence that comes through the opportunity to work. Despite significant economic



THE BUDGET FOR FISCAL YEAR 2019

3

improvements and a strong recovery in the job market, enrollment in welfare programs remains stubbornly high in many places around the Nation. Millions of Americans are in a tragic state of dependency on a welfare system that does not reward work, and in many cases, pays people not to work. These programs, expanded during the previous administration, must now be reformed. While moving able-bodied Americans back into the workforce, welfare reform must also protect public resources for the truly needy, especially the low-income elderly, children, and Americans with disabilities. The Budget includes sensible reforms to problems in our current welfare system, and aims to end debilitating dependency while ensuring that our safety net is reserved for those Americans who truly need help.

**More Pathways to Affordable Education and Well-Paying Jobs.** The Budget takes important steps to expand opportunities for Americans to access affordable, employment-relevant education that puts them on the path to a well-paying job and, ultimately, a fulfilling career. The Budget promotes formal apprenticeships, an evidence-based system that allows individuals to “earn-while they learn.” The Budget also makes important investments in science, technology, engineering, and mathematics (STEM) education in K-12 schools, and supports career and technical education in high schools and postsecondary institutions.

**Promoting School Choice.** So many of America’s poorest children—especially African-American and Hispanic children—attend failing public schools that afford them little hope of fulfilling their great potential. That is why families should be free to choose the public, private, charter, magnet, religious, or home school option that is right for them. The Budget empowers parents, especially of our disadvantaged youth, to choose the very best school for their children.

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The Budget reflects our commitment to the safety, prosperity, and security of the American people. The more room our economy has to grow, and the more American companies are freed from constricting over-regulation, the stronger and safer we become as a Nation.

It is now up to the Congress to act. I pledge my full cooperation in unleashing the incredible and unparalleled potential of the American people. There is no limit to the promise of America when we keep our commitments to our fellow Americans and continue to put their interests first. Working together, we will do just that.

DONALD J. TRUMP

THE WHITE HOUSE,  
FEBRUARY 2018

## AN AMERICAN BUDGET

The President has placed America on a new course, one that promises an era of a prouder, stronger, and more prosperous Nation. This new course has unleashed liberty and opportunity. It also makes the tough choices to produce a more efficient, effective, and accountable Government.

The engines of America are indeed running again. In his inaugural address, the President envisioned a Nation where “prosperity and strength” would return again. He laid out, in his first words as President, a simple but familiar American strategy: “winning again, winning like never before.” Most importantly, the President insisted on a simple, but forgotten principle—America First.

The President’s first Budget was built on the principle that Government is a steward of taxpayer dollars, not an owner. That means fiscal responsibility and prioritizing the most effective programs.

To date, the Administration’s focus on the economic health of the Nation has resulted in the elimination of 22 costly regulations for every new one created. This represents an important first step in cutting red tape, and getting the Federal Government out of the way of the private enterprise system that has made America the greatest force for prosperity in the world.

Under the leadership of the President, the first major re-write of the tax code in more than three decades has been delivered to the American people. The new tax code is designed to restore a healthy American economy—by putting American taxpayers before the Government.

Tax cuts and deregulation will allow us to unleash the American economy. However, economic growth must be met with spending restraint to ensure long-term fiscal health. The Budget takes a critical step toward balance, and bringing greater security for America’s fiscal future.

Washington has a spending problem. Debt and deficits are not only a problem in and of themselves, but they are also the symptoms of something much larger—little appetite in the Congress to restrain spending.

The Budget creates a steady vision inspired by the hardworking spirit of the Nation that will lead us toward prudent spending choices that will promote a safer, more prosperous, and secure America. Economic growth coupled with fiscal restraint is not just the end goal, it is the means by which a vision for a New America can be realized. The pillars of this vision, and thus the Budget, are:

- the safety and security of the American people;
- a stronger, healthier American economy;
- an enhanced quality of life for hardworking Americans; and
- a commitment to a better future.

***The safety and security of the American people*** is the foundation on which the Administration built the Budget. First and foremost, the Federal Government must protect its citizens. This is not just a priority, it is a promise. The Budget makes significant investments in border security, specifically in the Southwest border wall and robust immigration enforcement.

It is imperative to keep those who seek to harm us out of the United States, and the Budget ensures that America can quickly and decisively respond to any threat to U.S. safety, security, and sovereignty.

Furthermore, the Budget rebuilds the military with significant investments dedicated to enhancing the capacity and lethality of America's Armed Forces, missile defense, troop readiness, counterterrorism, and counter proliferation. The Budget strengthens America's capabilities, including nuclear, in space, and cyberspace.

***A stronger, healthier American economy*** promotes opportunity and benefits American families, workers, and companies. When major tax relief and reform are coupled with the elimination of excessive and unnecessary regulations, consumer and business confidence increases and economic prospects rise. The Budget supports important activities aimed at reducing the maze of Federal regulations that often serve as an obstacle to Americans seeking to grow their businesses. When taxpayers are allowed to keep their own money, it not only promotes economic growth, it also rewards the dignity of work. To further support this, the Budget also makes strategic

investments in Federal programs that support American workers. For example, the Budget bolsters the workforce by investing in apprenticeships which are a proven strategy for preparing workers to fill high-growth jobs.

***An enhanced quality of life for hardworking Americans*** reassures both those who have worked throughout their lifetime and those who are still working now that prosperity is possible. The Budget protects programs that retirees rely upon by negotiating better deals and leveraging the U.S. Government's buying power. The Budget also avoids more intrusive, crushing Government growth that would result in further crippling debt leaving less for seniors and future generations.

***A commitment to a better future*** is what the Budget provides for all Americans. When this President was elected, bloated budgets and stagnant economic growth painted a grim picture of a bleak future. If the Federal deficit continued to rise without restraint, the future would indeed be desolate and prompt future calls for tax increases. The Budget shines a light through that darkness. The Budget is a plan that secures generations of Americans through efficient, effective, and accountable Government.

# MODERNIZING GOVERNMENT FOR THE 21<sup>ST</sup> CENTURY

## WHERE WE ARE: FEDERAL CONTEXT

When America's Founders established the Constitution, they laid out a clear mission for the Federal Government, from providing for the common defense to securing the blessings of liberty. To this day, the business of Government remains to serve the American people by meeting their expectations in these foundational mission areas.

Nearly two decades into the 21<sup>st</sup> Century, the public still believes that the Federal Government serves critical roles and, in some areas, does them well.<sup>1</sup> Yet public trust in the Federal Government continues to decline, sitting at near-historic lows.<sup>2</sup> The Nation faces a significant national debt and annual deficits that require Government to change how it operates.

## HOW WE GOT HERE: ROOT CAUSE CHALLENGES AND EFFECTS

Many of the Federal Government's challenges and shortcomings arise from practices designed in the past and trends that can no longer be sustained. Major root cause challenges facing the Federal Government include:

**Accumulated Regulatory Burden.** Over many decades, Federal agencies have imposed countless regulatory requirements on individuals, businesses, landowners, and State and local governments. Some of these regulations serve important public purposes. Many regulations, however, are outdated, duplicative, or unnecessary, yet continue to impose costly burdens.

<sup>1</sup> Pew Research Center, December 2017, "Government Gets Lower Ratings for Handling Health Care, Environment, Disaster Response."

<sup>2</sup> Pew Research Center, May 2017, "Public Trust in Government Remains Near Historic Lows as Partisan Attitudes Shift."

Careful reconsideration of the regulatory burden is necessary to promote economic growth and individual freedom.

**Structural Issues.** Silos across Federal agencies and offices can stymie collaboration, resulting in fragmented services and piecemeal efforts. Greater coordination is needed among and within agencies and also with the Congress to improve management of the Federal Government and to remove outdated regulations and other obstacles to change.

**Decision-Making and Processes.** The public lacks sufficient opportunities to give feedback on Federal programs and services, making it harder to identify weaknesses and make improvements. Smarter use of data and evidence is needed to orient decisions and accountability around service and results.

**Leadership and Culture.** Achieving beneficial outcomes that serve the public should be the Federal Government's primary focus. Yet service delivery sometimes suffers due to checking unnecessary bureaucratic boxes. Managers need greater discretion to execute programs effectively, foster the highest-performing workforce, and solve real-time problems.

**Capabilities and Competencies.** Antiquated, unsecure technology risks can leave the public frustrated and vulnerable. Too many Federal employees perform outdated duties that rely on outdated skillsets, and Government too often struggles to award effective, timely contracts. A more nimble and effective approach is needed to keep technologies and workforce skills current and to ensure that the Federal workforce can meet future needs.

### WHERE WE ARE HEADED: A MULTI-GENERATIONAL VISION FOR REFORM

The vision for reform must be multi-generational, enabling the Federal Government to continue adapting to changing needs over time. The Administration cannot pursue short-term fixes only to see Government quickly become outdated once again. Deep-seated transformation takes time and will not happen in one or two years.

In March, the Administration will announce the President's Management Agenda, which will set forth a long-term vision for an effective Government that works on behalf of the American people and is focused on the following:

**Mission:** The American people count on the Federal Government every day, from national security to infrastructure to food and water safety. Public servants must be accountable for mission-driven results and have the necessary tools to deliver.

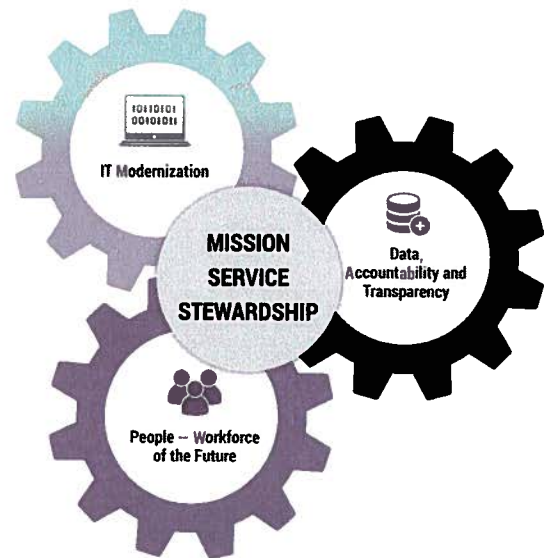
**Service:** Federal customers range from small businesses seeking loans, to families receiving disaster support, to veterans owed proper benefits and medical care. They deserve a customer experience that compares to—or exceeds—that of leading private organizations.

**Stewardship:** Effective stewardship of taxpayer funds is a crucial responsibility, from preventing fraud to maximizing impact. Taxpayer dollars must go to effective programs that efficiently produce results. The Budget conservatively projects that \$139 billion in savings can be achieved over the next decade through the prevention of improper payments alone.

### HOW WE WILL GET THERE: KEY DRIVERS OF REFORM

The Federal Government's challenges have not arisen in isolation, and cannot be solved through isolated efforts. The Administration will drive Government modernization by working at the junctions where these drivers intersect, rather than working in silos. Over time, it will target broad impacts on underlying issues, including legislative changes.

While challenges are complex, a few key drivers will determine the Administration's success at reform. Modernizing and strengthening these drivers will bolster results throughout Federal agencies and mission areas.



**Modern information technology** will function as the backbone of how Government serves the public in ways that meet their expectations and keep sensitive data and systems secure.

**Data, accountability, and transparency** will provide the tools to deliver visibly better results to the public and hold agencies accountable to taxpayers.

**A modern workforce** will enable senior leaders and front line managers to align staff skills with evolving mission needs. This will require more nimble and agile management of the workforce, including reskilling and redeploying existing workers to keep pace with an environment of change.

### FROM VISION TO ACTION: COMMITMENTS

The Administration will make aggressive down payments on this vision, paving the way for sustained improvement over time that is efficient, effective, and accountable. The Administration will carry out this important work through multiple channels that, together, will yield tangible

improvements for the Nation, its people, and the economy.

**The President's Management Agenda.** In March, the Administration will announce specific efforts to advance the vision and improve the three drivers of reform. The Administration will name senior accountable officials and establish concrete goals and trackable metrics to ensure public accountability. This agenda will address critical challenges where Government as a whole still operates in the past. Specific goal areas will include:

- **Modernizing Information Technology (IT) to Increase Productivity and Security.** Although the Federal Government spends roughly \$90 billion annually on IT, these systems remain outdated and poorly protected. The Administration will increase the use of modern technologies, retire highly insecure and outdated systems, and direct modernization cost savings to mission-driven outcomes. The Administration will improve its ability to identify and combat cybersecurity risks to agencies' data, systems, and networks.
- **Creating a 21<sup>st</sup> Century Framework for Data that Drives Efficiency, Accountability, and Transparency.** The Federal Government needs a robust, integrated approach to using data to deliver on mission, serve customers, and steward resources. The Administration will better manage and leverage data as an asset to better grow the economy, increase the effectiveness of Government, facilitate oversight, and promote transparency.
- **Developing a Workforce for the 21<sup>st</sup> Century.** Outdated rules and technology have often left the Federal Government struggling to attract the best talent, to hire quickly, or to hold workers and leaders accountable. The Administration will modernize processes and practices to bring out the best in employees and enable the Federal workforce to more effectively deliver mission results.

- **Improving the Customer Experience with Federal Services.** The American people expect high-quality customer service from Federal programs. The Administration will ensure that Government no longer lags behind the private sector in customer experience.<sup>3</sup>
- **Shifting from Low-Value to High-Value Work.** Hundreds of burdensome rules and requirements built up over decades force Federal agencies to devote their resources toward meaningless compliance. These resources can be better spent serving citizen needs. The Administration will clear out low-value, unnecessary, and obsolete policies and requirements to shift resources toward high-value work. The Administration has already begun this process by eliminating outdated plans and reports that burden Federal employees with unnecessary hours of paperwork. With the Budget, Federal agencies are also proposing that the Congress eliminate or modify approximately 400 plans and reports because they are outdated or duplicative (a list of these proposals is available on [www.performance.gov](http://www.performance.gov)).
- **Improving the Efficiency and Effectiveness of Administrative Services across Government.** Agency missions are imperiled and taxpayer dollars are squandered when administrative functions across agencies—such as IT, human resources, and contracting—are inefficient or fail to take advantage of economies of scale. Half of Federal agencies report low satisfaction with such administrative functions. The Administration will improve the quality and efficiency of administrative services, freeing resources to improve outcomes and accountability for the American people.

To drive these long-term Presidential priorities, the Administration will leverage cross-agency priority (CAP) goals to coordinate and

<sup>3</sup> American Customer Satisfaction Index. *National, Sector, and Industry Results*. December 2017.

publicly track implementation across agencies. CAP goals will also strengthen Federal Government management in other priority areas, such as improving management of major acquisitions, reducing improper payments, increasing transparency of IT costs, enhancing accountability for grant spending, and improving purchasing across Government as an enterprise. CAP goal teams will lead the execution of related Administration priorities, such as implementing the recommendations of the *Report to the President on Federal IT Modernization* focused on Network Modernization, Cybersecurity, and Shared Services. The Administration will establish Centers of Excellence inside the General Services Administration to focus on critical priorities such as cloud migration, data center consolidation, and modernizing call centers to better serve citizens. The Administration will work to strengthen fundamental capabilities, such as the ability to manage data comprehensively and to use data routinely to improve operations, which are the backbone of how business is accomplished in the modern era. In addition to cross-agency efforts, each major Federal agency is publishing an updated strategic plan with the Budget, establishing strategic objectives for the Administration's first term and committing to agency priority goals for the next two years. A full list of agency performance plans is available at [www.performance.gov](http://www.performance.gov).

**Reorganization and Reform.** Last March, the President sent out a call for change in Executive Order 13781, "Comprehensive Plan for Reorganizing the Executive Branch," where he tasked the Office of Management and Budget (OMB) Director with providing a plan to reorganize the Executive Branch. The Budget is a first step in presenting this plan to the American people. This plan includes changes that can be accomplished with existing authorities as well as others that would require new funding and authorities. These changes also include reforms identified by individual Federal employees, who answered the Administration's request for their best ideas to improve public services or better use taxpayer dollars.

These reforms include, for example: eliminating unnecessary political positions; using shared services to improve IT services and reduce costs through economies of scale; re-aligning offices and personnel; and revamping regional offices. For instance, in order to improve customer service, the Department of the Interior has already begun to shift employees away from Washington, District of Columbia, closer to the citizens the Agency serves. The Department of Energy is also planning to review its existing laboratory network and identify potential efficiencies.

As part of this plan, the Administration is also planning to review how it can restructure functions across Federal agencies. For instance, it is planning a review of how it can streamline Federal statistical functions across multiple Federal agencies. The Administration is also reviewing Federal development finance activities—currently spread across the Overseas Private Investment Corporation and multiple offices at the United States Agency for International Development and other Federal agencies—to identify ways to reduce duplication and better achieve national security and international development outcomes while supporting U.S. business and jobs. The Budget proposes to consolidate these functions into a new Development Finance Institution, including reforms that protect taxpayer dollars.

In the months ahead, the Administration plans to unveil additional reorganization proposals designed to refocus programs around current and future needs.

**Getting Government Out of the Way.** Within 10 days of taking office, the President issued Executive Order 13771, "Reducing Regulation and Controlling Regulatory Costs," which directs agencies to reduce regulatory burdens by eliminating two existing regulations for each new one issued and impose no net regulatory burden in 2017.

The Administration recognizes that excessive and unnecessary Federal regulations limit individual freedom and suppress the innovation

and entrepreneurship that make America great. Starting with confidence in private markets and individual choices, this Administration is reassessing existing regulatory burdens. Agencies have identified regulatory actions ripe for reform and are working to eliminate or modify those requirements. The Administration also approaches the imposition of new regulatory requirements with caution to ensure that regulations are consistent with law, necessary to correct a substantial market failure, and net beneficial to the public.

The Administration's regulatory philosophy and approach emphasize the connection between limited Government intervention and individual liberty. Regulatory policy should serve the American people by staying within legal limits and administering the law with respect for due process and fair notice.

In December 2017, OMB released its *Regulatory Reform Status Report: Two-for-One and Regulatory Cost Maps*, which assessed agency performance under Executive Order 13771 during 2017. At the same time, OMB released the *Unified Agenda of Regulatory and Deregulatory Actions and the Regulatory Plan*, which set forth the Administration's roadmap for a more limited, effective, and accountable regulatory policy in 2018 and beyond.

- **Regulatory Reform in 2017.** In just its first eight months, the Administration eliminated 67 regulations and adopted only three significant new regulations. This 22-to-one ratio far exceeds the President's "two-for-one" requirement. It also generated \$8.1 billion in net regulatory cost savings (present value), far surpassing the President's requirement to hold net costs to zero. The Administration took further action to withdraw or delay more than 1,500 regulations in the pipeline, and has been transparent about these planned regulatory actions. This pace and scope of deregulation is unprecedented.
- **Regulatory Reform in 2018 and Beyond.** The Administration's *Unified Agenda* currently projects the elimination of approximately 448 regulations and the

addition of only 131 new regulations. In 2018, Federal agencies are committed to cutting more than \$9.8 billion in lifetime regulatory costs. Across the Government, this Agenda will drive substantial reductions in regulatory costs beyond what has already been accomplished. For additional information, please visit [www.reginfo.gov](http://www.reginfo.gov).

At its core, regulatory reform not only promotes individual liberty and a flourishing economy, but also supports America's constitutional democracy. OMB's regulatory review process ensures that agencies stay within the legal authority given by the Congress. Where the law leaves discretion, however, the Administration will work with agencies to ensure that regulatory policy reflects Presidential priorities. This executive direction grounds the rulemaking process in democratic accountability.

By starting from a foundation of confidence in markets, individual choice, and the hard-working men and women of America, the Administration has already achieved—and will continue to achieve—dramatic reductions in the regulatory burden on the American economy and individual freedom. The agenda for the coming year promises a regulatory policy that works for the American people.

**A Clear Roadmap Ahead.** The Federal Government cannot be fully equipped to meet modern management challenges without support from the Congress. In some cases, real change will demand different agency structures. In other cases, the Administration may need to update rigid requirements from the past that hold back Government.

Government must recognize that it can no longer meet modern needs with the same approaches, technology, and skillsets from centuries past. By acknowledging shortcomings, setting a modern vision, and delivering on concrete goals, the Administration can adapt Federal programs, capabilities, and the Federal workforce to more efficiently, effectively and accountably meet mission demands and public expectations.



## **A NEW FEDERAL BUDGET THAT WORKS FOR THE AMERICAN PEOPLE**

The President's first Budget laid the foundation for an era of American greatness. The Budget enshrined fiscal responsibility and fiscal restraint while prioritizing spending to programs Americans need most. The Budget rights the wrongs of previous administrations by

reprioritizing spending to protect the American citizen and the homeland, bringing dignity back to the American worker, and strengthening national defense. By building on policies laid out in the President's first Budget, the 2019 Budget provides the gateway to America's future.

### **KEEPING AMERICA SECURE**

As described in the National Security Strategy, the Government's fundamental responsibility is to protect the American people, the homeland, and American way of life. The National Security Strategy recognizes that an America that is strong and prosperous at home is an America capable of defending its interests and advancing its influence abroad. By leading abroad in concert with allies and partners, the United States can help create a world that is aligned with America's interests and values. Such a world makes us more secure and prosperous here at home. While America possesses enduring national strengths, the Nation now faces an era of increased strategic competition, global disorder, and erosion of the U.S. comparative military advantage. To effectively compete, deter, and win in this challenging new era, the United States must continue to invest in and adapt U.S. national security programs.

The Budget invests in protecting America and the homeland, including through a layered missile defense system to defend the homeland against missile attacks. The Budget also requests funds to pursue threats to their sources, so that jihadist terrorists and transnational criminals are stopped before they ever reach the Nation's borders. The Budget supports: efforts by

the Department of State, Department of Energy, and Department of Defense (DOD) to strengthen international partnerships to stop the proliferation of the materials, technologies, weapons, and delivery systems necessary to build and deploy weapons of mass destruction; DOD capabilities to disrupt efforts to produce weapons of mass destruction; efforts by the Departments of State of the Treasury to hold accountable those that engage in proliferation activities or support these illicit programs; Department of Homeland Security (DHS) initiatives to identify weapons of mass destruction and their components before they reach the U.S. homeland or can be used on U.S. soil; and Federal Bureau of Investigation and DOD capabilities to thwart terrorists that attempt to use weapons of mass destruction.

The Budget advances the goal of preserving peace through strength by rebuilding the U.S. military so that it remains preeminent, deters adversaries, and if necessary, is able to fight and win. By investing in the capacity, capabilities, and modernization of America's Armed Forces, the Budget would continue to strengthen America's full spectrum of military capabilities and associated personnel—including in space and cyberspace.

To maintain the advantages America's Armed Forces enjoy and build upon its strengths, the Budget requests \$716 billion for national defense. These investments fund a military that protects America's vital national interests in an increasingly competitive world. However, America and its allies cannot be defended if the Nation is not both strong and solvent. Recognizing the importance of solvency, the Budget proposes to pay for increases for the military with \$65 billion in reductions from the non-Defense discretionary caps in 2019 under current law. DOD will also pursue an aggressive reform agenda to achieve savings that it will reinvest in higher priority needs.

The U.S. military cannot expect success fighting tomorrow's conflicts with yesterday's weapons or equipment. Rather, it will shift to a more lethal, resilient, and agile force able to take on and prevail against any foe, even in the face of aggressive military modernization campaigns on the part of potential adversaries.

To that end, the Budget makes significant investments in the capability of the joint force, and especially in its lethality, resilience, and agility to better deter and, if necessary, fight and prevail against any opponent. In particular, the Budget focuses on improving the joint force's capability to take on potential great power adversaries. At the same time, the Budget invests to recover full-spectrum readiness while acquiring new and improved capabilities, enabling the United States to meet security challenges now and into the future. The Budget ensures U.S. forces are ready to fight by providing critical funding for training, munitions, logistics, and maintenance while also enabling America's forces to recover readiness against high-end adversaries. The Budget also requests funds to selectively increase the size of the Army, Air Force, Navy, and Marine Corps and requests funds for the modernization of equipment, including armored vehicles, artillery, new warships, stealthy fighter aircraft, and the next generation of bombers. These investments would strengthen deterrence by ensuring the military is ready to confront even the most capable adversaries. Deterring adversaries from choosing

a military option would support a peaceful and open international order that underpins the prosperity of the United States and its allies.

Although the U.S. military will remain second to none, adversaries and competitors are increasingly challenging the United States across the political, economic, and military arenas. To that end, the Budget supports the missions of the Department of State, U.S. Agency for International Development, and other international programs to help America compete against hostile actors and ideologies and advance American interests. The Budget builds upon key reforms begun in last year's Budget to prioritize civilian activities that support more resilient, democratic, and prosperous societies, leading to a more secure and peaceful world. The Budget prioritizes efforts to ensure that the burden of responding to global crises is borne globally, rather than disproportionately by the people and economy of the United States. By focusing on programs and policies that catalyze other countries' economic and political development, America can help aspiring partners become economic and security partners, shield them from competitors, and promote a stable world reflecting these principles.

In recognition of the dedication and sacrifice of the men and women who have served in the Armed Forces, and those who continue to serve today, the Budget also reflects a renewed commitment to honor the service of veterans. The Budget supports veterans spanning multiple generations including during periods of conflict and peace. Specifically, the Budget would build upon the Veteran's Choice program to improve healthcare and implement a modernized appeals system to provide veterans with better medical options. The Budget would also provide enhanced access to education benefits through the Forever GI Bill signed into law by the President in August 2017. In addition, the Budget funds long-term efforts to improve infrastructure and modernize the Department of Veterans Affairs (VA) to ensure it is positioned to support future generations of veterans.

## HELPING AMERICANS MOVE FROM WELFARE TO WORK

More than 20 years have passed since the Congress implemented significant reforms to America's safety net. In 1996, the Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), and transformed the way Government provided support to low-income families. Recognizing the value of State innovation, and promoting work as the best pathway out of poverty, PRWORA ushered in an era where success was no longer measured by how many people received welfare assistance but instead by how well Government helped families progress toward self-sufficiency. Building off of this framework, the Budget empowers States to develop innovative strategies to help welfare recipients achieve economic independence through work, while preserving the basic safety net necessary to help those most in need.

### *Promoting the Value of Work*

Work is a fundamental element in moving welfare recipients toward self-sufficiency and economic security. This plan proposes to reinforce one of the original principles of welfare reform—able-bodied people should be required to work or prepare for work in order to receive Government assistance. The Budget, therefore, requires States to ensure that work-capable individuals are on a pathway to work. In addition, an abrupt end to welfare assistance is often an impediment to sustained employment, creating churn on the welfare rolls. To further increase employment outcomes, the Budget also encourages States to provide the support necessary to ease this transition.

### *Improving Food Assistance*

The Budget proposes a bold new approach to administering the Supplemental Nutrition Assistance Program (SNAP) that combines traditional SNAP benefits with 100-percent American grown foods provided directly to households and focuses administrative reforms on outcome-based employment strategies. The Budget expands on previous SNAP proposals to strengthen expectations for work among able-bodied adults, preserves benefits for those most in need, promotes

efficiency in State operations, and improves program integrity. Combined, these reforms would maintain the commitment to ensure Americans in need of assistance have access to a nutritious diet while significantly reducing the cost to taxpayers.

### *Encouraging State Innovation*

Today, there are still more than 80 single-purpose welfare programs that comprise a Federal safety net intended to help those living in poverty. This complex and bureaucratic system has proven to be ineffective. The Budget proposes to streamline, simplify, and improve the efficiency of the welfare system by proposing a new approach to assisting low-income Americans rise to their potential.

The Administration recognizes that States and local communities best understand the conditions and circumstances of their economically vulnerable citizens. Therefore, the Budget offers States the opportunity to propose Welfare to Work Projects that streamline funding from multiple welfare programs, and provide services that are tailored to their constituents' specific needs, helping them progress from welfare to work. Reducing burdens and inefficiencies in overlapping—or at times competing—program requirements would remove barriers to employment and self-sufficiency for families dependent on welfare programs.

This new opportunity would be accompanied by a strong accountability framework. Specifically, plans to combine safety net programs would be subject to rigorous, random-assignment evaluations, measuring achievement in targeted outcomes that focus on fostering employment, reducing welfare dependency, and promoting child and family well-being. These projects would serve to build the evidence base of best practices to help low-income individuals and families achieve self-sufficiency, and would inform the design of more comprehensive welfare reform efforts in the future.

Altogether, the Budget offers a bold new vision for America's safety net, and reinforces this Administration's commitment to helping all Americans achieve their full potential.

### PROTECTING AMERICANS WHILE ENHANCING LEGAL IMMIGRATION

Since taking office, the President has made clear that he would restore order and integrity to the U.S. immigration system. There are three primary efforts underlying this goal: strengthening border security; ensuring enforcement of immigration laws; and reforming the legal immigration system, while recognizing that legal immigration is an important driver of a thriving economy. The Budget requests more than \$28.2 billion for the agencies that have primary responsibility for carrying out immigration programs at DHS and the Department of Justice (DOJ). This includes funding for U.S. Customs and Border Protection (CBP), U.S. Immigration and Customs Enforcement (ICE), and U.S. Citizenship and Immigration Services within DHS, and the Executive Office for Immigration Review (EOIR) within DOJ.

Within the Administration's proposal for \$18 billion to fund the border wall, the Budget invests \$1.6 billion to support CBP efforts to gain operational control of the Southwest border. Until the porous borders are closed to the criminals, terrorists, and gang members that exploit it, America remains at risk. Furthermore, since most of the illegal drugs that enter the United States come through the Southwest border, a border wall is critical to combating the scourge of drug addiction that leads to thousands of unnecessary deaths. The border wall would stop smugglers in their tracks and help make America safe.

The Budget also requests \$211 million for 750 additional Border Patrol agents in 2019, continuing the President's commitment to increase the ranks of the Border Patrol by 5,000 new agents. Funding would be used to recruit, hire, and train new agents, and for staff to support the men and women on the front line of America's border defenses. These new personnel would supplement investments in the border wall by guarding the border and apprehending and swiftly removing illegal aliens at the border.

The Budget furthers investment in CBP technology and targeting systems such as the National

Targeting Center (NTC) and the Biometric Entry-Exit System. The Budget requests a total of \$253 million for NTC, an increase of \$79 million, for its overall mission, including the background vetting of individuals seeking to enter the United States before they arrive. These programs would enable the Government to better identify terrorists and other criminals and prevent their entry into the United States. Completion of the long-required Biometric Entry-Exit System would increase law enforcement's ability to identify and remove those who overstay their visas. Future investments in enhanced vetting and targeting programs would further the Administration's goal of shifting such costs to visa and immigration applicants while continuing to facilitate legitimate travel to the United States.

The Budget makes major investments in immigration law enforcement in the interior of the Nation, focusing on efforts to identify, arrest, prosecute, and remove illegal aliens. Within ICE, the Budget proposes \$571 million to hire and support 2,000 new officers and agents, which directly supports the President's order for ICE to arrest all illegal aliens it encounters. Since the President's inauguration, ICE arrests have increased by 42 percent and the Agency has increased requests to local law enforcement to transfer custody of illegal aliens to ICE by 81 percent during the same time period in the previous fiscal year.

As ICE increases its arrests and deportations of illegal aliens, it also requires additional detention and removal capacity. The Budget requests more than \$2.5 billion for these critical law enforcement functions, funding an average daily detention capacity of 47,000 illegal aliens in facilities across the United States. To ensure immigration cases are heard expeditiously, the Budget also requests an increase of \$40 million for 75 new immigration judge teams at EOIR and nearly \$40 million for 338 new prosecuting attorneys at ICE. These investments are critical to the prompt resolution of newly-brought immigration charges and to reduce the 650,000 backlog of cases currently pending in the immigration courts.

The Budget requests \$208 million in new funding for 300 additional ICE Special Agents, support staff, and other activities for the Agency's Homeland Security Investigations' (HSI) mission. HSI staff lead efforts to ensure only those with legal permission to work in the United States are employed here, investigate and disrupt transnational criminal organizations (TCOs) that perpetuate human smuggling and trafficking, and stop immigration fraud, which directly facilitates illegal immigration. Because these investigations protect the integrity of the legal immigration system, the Budget proposes collecting the \$208 million for these purposes from the immigration applicants who want to come to the United States and benefit from the Nation's opportunities.

The integrity of the immigration system relies upon everyone in the United States doing their part to follow the law. The Budget invests \$23 million to expand the E-Verify Program for mandatory nationwide use, ensuring that businesses employ only those authorized to work in the United States. Further, the Budget proposes to amend the Illegal Immigration Reform and Immigrant Responsibility Act to condition DHS and DOJ grants and cooperative agreements

on States and local governments agreeing to cooperate with immigration enforcement activities. This proposal takes important steps to mitigate the risk that sanctuary cities pose to public safety and ensures appropriate alignment between State and Federal immigration enforcement.

The Budget supports efforts to reform the legal immigration system by ending family chain migration and the diversity visa lottery and replacing them with a merit-based regime that selects immigrants based on their skills, likelihood to assimilate, and ability to contribute to the economy. This is similar to the approach used by Canada and Australia and would reduce overall immigration while limiting low-skilled and unskilled labor entering the United States. The Budget requests the resources needed to adjudicate immigration and visa applications and identify and counter fraud in the immigration process, ensuring that businesses and individuals petitioning for foreign workers and relatives do so in a manner consistent with the Nation's immigration laws, while ensuring that the American economy continues to access the labor force critically needed for growth.

### **REBUILDING AMERICA THROUGH THE INFRASTRUCTURE INITIATIVE**

America's infrastructure is a key component to its historic success. With the world's most efficient rail and interstate highway systems, America was a fierce global competitor. Local roads and water systems provided a clean and safe environment for communities and families.

In recent decades, however, we have chronically under-invested in public infrastructure, leading to the frustration of long commutes and the loss of life when a lack of maintenance creates safety hazards. The challenge of restoring this infrastructure is complicated by the fact that virtually all public infrastructure is owned by State and local governments, not the Federal Government. Interstate highways, drinking and waste water systems, commuter railroads, airports, power lines, telecommunications, and ports are all non-Federal. While the Federal

Government has co-invested in State and local infrastructure, using Federal dollars to pay for non-Federal infrastructure projects has created an unhealthy dynamic in which State and local governments delay projects in the hope of receiving Federal funds.

The Administration's infrastructure initiative would address the imbalances between infrastructure investment, ownership, and responsibility and generate \$1 trillion in total infrastructure investment through a combination of direct Federal funding and incentivized non-Federal funding. The Budget requests \$200 billion dedicated to this effort, as follows:

- **Incentive Grants**—\$100 billion is requested to encourage increased State, local, and private infrastructure investment

by awarding incentives to project sponsors for demonstrating innovative approaches that would generate new revenue streams, prioritize maintenance, modernize procurement practices, and generate a social and economic return on investment. Incentives would be provided in the form of competitive grants.

- **Rural Formula Funds**—\$50 billion is requested for this program, which would address the significant need for investment in rural infrastructure, including broadband internet service. Federal funding would be made available to States via formula distribution, along with a bonus competition based on State performance in achieving goals outlined in State-developed rural infrastructure plans. Within this amount, funding is set aside for federally recognized Tribes and U.S. Territories.
- **Transformative Projects**—\$20 billion is requested to support bold, innovative, and transformative infrastructure projects that can significantly improve existing infrastructure conditions and services. Funding would be awarded on a competitive basis for commercially viable projects that are capable of generating revenue, provide net public benefits, and would have a significant positive impact on the Nation, a region, State, or metropolitan area.
- **Existing Credit Programs**—\$14 billion is requested in additional subsidy funding for the key Federal credit programs providing financing to infrastructure projects. This funding would significantly increase Federal credit assistance to infrastructure via the Department of Transportation's Transportation Infrastructure Finance and Innovation Act (TIFIA) and Railroad Rehabilitation and Improvement Financing programs, the Environmental Protection Agency's Water Infrastructure Finance and Innovation Act program, and

the Department of Agriculture's Rural Utilities Service program. For example, historically the TIFIA program has leveraged about \$40 in transportation infrastructure improvement for each \$1 of TIFIA assistance provided. The initiative would also expand eligibility for these credit programs to include other governmental infrastructure such as airports and ports.

- **Federal Capital Revolving Fund**—\$10 billion is requested to establish a mandatory revolving fund to finance purchases, construction, or renovation of federally owned civilian real property. The Federal Government is currently utilizing inefficient leases to access necessary property. Leases are being used due to the unavailability of the large upfront capital needed to acquire real property projects. Upon approval in annual appropriations acts, the revolving fund would transfer money to agencies to finance large-dollar real property projects. Purchasing agencies would then be required to repay the Fund using discretionary appropriations.
- **Private Activity Bonds (PABs)**—the initiative would expand flexibility and broaden eligibility for PABs, which play an important part in delivering many large, regionally- and nationally-significant projects. PABs provided for this broadened definition of "core public infrastructure projects" would not be subject to volume caps, but would require the projects to be available to the public and either Government-owned or privately-owned but subject to Government regulatory or contractual control and approval. The Budget requests \$6 billion related to this expansion.
- **Real Property Reforms**—the Budget supports several proposals to streamline and improve the Federal real property disposal processes, Government-wide, including the retention of sales proceeds.

These proposals would increase the opportunities to sell off real property no longer needed by the Federal Government, thereby generating revenue to improve other mission critical Federal facilities. Disposal of unneeded Federal facilities would also allow the disposed buildings to be returned to private use, potentially spurring local economic development. The Budget also supports flexibilities for VA to leverage existing assets to continue its efforts to reduce the number of vacant buildings in its inventory, leverage VA assets for the construction of needed new facilities to serve veterans, and align the VA lease prospectus threshold with the General Services Administration threshold.

- **Reduce Deferred Maintenance on Public Lands**—the Budget also proposes a new Public Lands Infrastructure Fund for the Department of the Interior to

support infrastructure investments in national parks, refuges, and Bureau of Indian Education schools. The Fund would be supported by half of the incremental receipts from expanded energy development that exceed previous projections and are not allocated for other purposes.

- **Streamline Permits**—in addition, the infrastructure initiative includes several proposals to streamline permitting decisions to accelerate project delivery while maintaining environmental safeguards. For example, the initiative proposes creating a new “One Federal Decision” structure that includes firm deadlines for completing environmental reviews, eliminating redundant agency reviews, delegating responsibilities to States where appropriate, and pilot programs to experiment with innovative approaches to environmental reviews.

### COMBATTING THE DRUG ABUSE AND OPIOID OVERDOSE EPIDEMIC

The drug abuse and overdose epidemic, particularly related to opioids, is tearing apart America’s families and devastating communities. Last year, more people died from drug overdoses than traffic accidents. The two million people who are addicted to opioids, a class of drugs that includes both legal and illicit drugs such as certain prescription painkillers, heroin, and synthetic opioids such as fentanyl, are especially at risk. In 2016, approximately 64,000 people died from drug overdoses, 174 lives per day.

In 2017, the President said: “I made a promise to the American people to take action to keep drugs from pouring into our country and to help those who have been so badly affected by them.” The Administration has taken a number of significant actions to address the crisis. The President created the Commission on Combating Drug Addiction and the Opioid Crisis and the Administration declared the opioid epidemic a nationwide public health emergency. The Administration provided nearly \$500 million in new resources to States to prevent and treat opioid abuse and addiction in

2017, in addition to last year’s Budget that requested another \$500 million.

As the President noted: “Ending the epidemic will require mobilization of Government, local communities, and private organizations. It will require the resolve of our entire country.” The Budget requests more than \$30 billion in drug control funding in 2019, of which the Office of National Drug Control Policy estimates that more than \$7 billion combats the opioid crisis, with efforts spanning prevention, treatment, interdiction, international operations, and law enforcement across 14 Executive Branch Departments, the Federal Judiciary, and the District of Columbia.

The Budget requests \$5 billion in new resources for the Department of Health and Human Services (HHS) over the next five years, including \$1 billion in 2019, to combat the opioid epidemic by preventing opioid abuse and helping those who are addicted get access to overdose reversal drugs, treatment, and recovery support

services. The Budget request includes: \$50 million for a media campaign; \$625 million for States to respond to the crisis; \$50 million to improve first responder access to overdose-reversal drugs; \$100 million for surveillance and opioid abuse prevention activities, including improving State-based Prescription Drug Monitoring Programs (PDMPs); \$20 million for drug courts; \$10 million for pregnant and post-partum women treatment programs; \$10 million for the Food and Drug Administration's (FDA) regulatory science activities to develop tools to stem the misuse and abuse of opioids; \$65 million to support multi-sector, county-level teams in high-risk rural communities to improve access to care, and expand treatment and recovery services; \$45 million for supplemental grants for opioid abuse prevention, treatment, and recovery services in American Indian and Alaska Native communities; and \$25 million to evaluate the impact of medication assisted treatment on reducing overdose deaths.

In addition to the requested \$5 billion, the Budget also continues and expands existing activities in HHS that specifically address key strategies to combat the opioid crisis. The Budget requests \$100 million for the National Institutes of Health to support a public-private partnership with the pharmaceutical industry to develop prevention and treatments for addiction, overdose-reversal, and non-addictive therapies for pain. The Budget requests \$123 million in the Substance Abuse and Mental Health Services Administration for opioid abuse prevention, treatment, recovery support, and overdose reversal. The Budget also requests \$126 million in the Centers for Disease Control and Prevention to support opioid abuse prevention and surveillance activities, including support to States to improve the capabilities and use of State-based PDMPs.

Further, the Administration supports more rigorous research to better understand how existing programs or policies might be contributing to or mitigating the opioid epidemic.

For Medicaid, the Budget calls for expanding coverage of comprehensive and evidence-based medication assisted treatment options, previews

forthcoming guidance from the Centers for Medicare and Medicaid Services that would set minimum standards for State Drug Utilization Reviews to reduce clinical abuse, and requires States to track and act on prescribers that do not adopt best practices.

For Medicare, the Budget proposes to test and expand nationwide a bundled payment for community-based medication assisted treatment, including Medicare reimbursement for methadone treatment for the first time. The Budget also proposes to prevent prescription drug abuse in Medicare Part D and protect beneficiaries from potentially harmful drugs by requiring plan participation in a program to prevent prescription drug abuse. In addition, the Budget proposes to authorize the Secretary of HHS to work with the Drug Enforcement Administration (DEA) to revoke a provider's certificate (which allows a provider to prescribe controlled substances) when that provider is barred from billing Medicare based on a pattern of abusive prescribing. Cutting off Medicare funding for abusive prescription practices not only helps bring premiums down for seniors, it promotes sound public health policy.

The President also recognizes that combatting the opioid crisis means not only helping those suffering from drug addiction but also dismantling drug trafficking organizations profiting from this deadly scourge. The Budget requests \$2.2 billion for the DEA, including an additional \$41 million to enhance efforts to target the illicit drug traffickers that prey on communities. In addition, the Budget requests \$103 million within DOJ for opioid-related State and local assistance including: \$20 million for the Comprehensive Opioid Abuse Program to support a variety of activities such as treatment and recovery support services, diversion, and alternative to incarceration programs; \$59 million for Drug Courts, Mental Health Courts, and Veterans Treatment Courts; \$12 million for Residential Substance Abuse Treatment; and \$12 million to support PDMPs, in tandem with HHS efforts.

The Budget also requests a range of investments that would strengthen efforts at DHS to



identify, screen, and interdict drug shipments coming into the United States, and to investigate those responsible for bringing illegal drugs into the United States. The Budget request increases funding for CBP's NTC by \$79 million, for a total of \$253 million, which would also allow the Agency to better target its efforts to stop illicit goods, including illicit drugs, from entering the United States. The Budget also requests a \$44 million investment in new Non-Intrusive Inspection technology at Ports of Entry, which is used to examine cargo and conveyances for contraband and weapons of mass effect. The Budget requests an increase of \$42 million, funded by both fees and discretionary appropriations, to enable CBP to screen inbound packages at express consignment carrier facilities such

as FedEx, UPS, and DHL. The Budget continues investments in presumptive testing devices to improve customs officers' capability to detect and interdict fentanyl and other opioids, and requests an additional \$1.2 million, for a total of \$46 million, for scientific support to CBP officers for rapid identification of suspected illicit materials, in particular suspected opioids. In addition, the Budget fully supports all 57 ICE Border Enforcement Security Task Force units around the United States, which are the Agency's primary platform to investigate opioid smuggling, and continues support for DHS's Joint Task Force—Investigations, which works to identify, disrupt, and dismantle TCOs that seek to import opioids and other drugs into the United States.

#### **RETHINKING DRUG PRICING TO PUT AMERICAN PATIENTS FIRST**

Many drugs are too expensive for Americans and too many patients continue to be priced out of the medicines they need. Lowering prescription drug prices is one of the most important issues facing the Nation. Recent well-publicized instances of price manipulation and the disparity between U.S. drug prices and prices overseas also add to the growing frustration Americans feel. While American innovators bring life-saving pharmaceutical products to the world, drugs are purchased through an inefficient, opaque maze of segmented channels and a poorly understood network of pricing schemes. Complex regulations and barriers to entry for suppliers drive up drug costs for Americans. Americans unfairly shoulder a disproportionate amount of burden for research and development, allowing foreign governments to achieve better deals for their citizens at the expense of the American people. The goal of the Administration's comprehensive strategy is to address the problem of high drug prices, provide greater access to lifesaving medical products, and to ensure that the United States remains the leader in biomedical innovation.

The Administration has already taken a number of significant administrative steps to reduce drug costs. For example, in 2017, FDA approved the highest annual total number of generic drugs (1,027) in the Agency's history.

FDA is also increasing competition in the market for prescription drugs, and facilitating entry of lower-cost alternatives, by providing greater transparency and expediting the review of generic drug applications for products with limited competition. CMS modified payment policies for biosimilars to encourage innovation and a robust market, which should encourage competition and innovation and help lower prices in the long run. The Administration also took steps to lower the costs seniors pay for certain drugs in the hospital outpatient setting, so that patients could benefit from the discounts hospitals receive under the 340B Program. This action is expected to save seniors an estimated \$320 million on drug co-payments in calendar year 2018 alone. In addition, the Budget once again proposes reforms to improve 340B Program integrity to ensure that the benefits derived from participation in the program are used to benefit patients, especially low-income and uninsured populations, and to require entities to report on use of 340B Program savings.

The Budget proposes new strategies to address high drug prices and increase access to lifesaving medicines by: rationalizing the current incentive structure; fostering greater competition; and extending American leadership in innovation to put American patients first.

The Budget calls for new Medicaid demonstration authority for up to five States to test drug coverage and financing reforms that build on private sector best practices. Participating States would determine their own drug formularies, coupled with an appeals process to protect beneficiary access to non-covered drugs based on medical need, and negotiate drug prices directly with manufacturers.

Within the Medicare program, the Budget modernizes the Part D drug benefit, based upon 12 years of program experience, to improve plans' ability to deliver affordable drug coverage for seniors and reduce their costs at the pharmacy counter. Seniors would benefit from the Budget's proposals, which are designed to better protect beneficiaries from high drug prices, give plans more tools to manage spending, and address the misaligned incentives of the Part D drug benefit structure. The proposed changes enhance Part D plans' negotiation power with manufacturers, encourage utilization of higher value drugs, discourage drug manufacturers' price and rebate strategies that increase spending for both beneficiaries and the Government, and provide beneficiaries with more predictable annual drug expenses through the creation of a new out-of-pocket spending cap. The Budget also modifies payment for Part B drugs to discourage

manufacturers from increasing prices faster than inflation and improves payment accuracy. In addition, the Budget also modifies hospitals' payment for drugs acquired through the 340B drug discount program by rewarding hospitals that provide charity care and reducing payments to hospitals that provide little to no charity care.

The Budget also proposes to give FDA greater ability to bring generics to the market faster by incentivizing more competition among generic manufacturers. The Budget proposes to ensure that first-to-file generic applicants who have been awarded a 180-day exclusivity period do not unreasonably and indefinitely block subsequent generics from entering the market beyond the exclusivity period.

The Administration is updating a study from 2004 to analyze drug prices paid in countries that are a part of the Organization for Economic Cooperation and Development. HHS, working in conjunction with the Department of Commerce and the U.S. Trade Representative, will develop the knowledge base to understand the unfair disparity between the drug prices in America and other developed countries. The Administration is committed to making the regulatory changes and seeking legislative solutions to put American patients first.



## DEPARTMENT OF AGRICULTURE

### Highlights:

- The U.S. Department of Agriculture (USDA) provides leadership on issues related to food, agriculture, and natural resources based on sound public policy, the best available science, and efficient management.
- The Budget focuses on core mission-critical activities such as expansion of agricultural production jobs and research, while also supporting the Secretary's Department-wide reorganization efforts. Demonstrating fiscal constraint and responsible use of taxpayer resources, the Budget eliminates funding for unnecessary or lower priority activities and those that are duplicative of private sector efforts.
- The Budget requests \$19 billion for USDA (excluding changes in mandatory programs), a \$3.7 billion or 16-percent decrease from the 2017 enacted level.

### The President's 2019 Budget:

USDA works to expand agriculture productivity and rural prosperity through the development of innovative practices and research, by improving access to technology and by providing financing needed to help grow job prospects, raise income levels and improve housing, utilities, and community infrastructure in rural America. The Department also works to promote sustainable agricultural production to protect natural resources and the long-term availability of safe and affordable food. USDA programs safeguard and protect America's food supply by reducing the incidence of food-borne hazards from farm to table.

The Department's programs also improve nutrition and health through food assistance and nutrition education. USDA works to increase foreign market access for U.S. agricultural products and provides data and analysis of foreign market conditions. This helps U.S. agricultural producers make informed decisions on international trade opportunities, and supports the U.S. economy through increased exports. In addition, USDA manages and protects America's public and private lands by working cooperatively across the Government and the private sector to preserve and conserve the Nation's natural resources through restored forests, improved watersheds, and healthy private working lands. The Budget continues some of the reforms outlined in the 2018 Budget while also streamlining programs to focus on core mission areas.

**Safeguards the Nation's Food Supply.** The Budget fully funds the costs necessary to support about 8,100 personnel located at more than 6,400 processing and slaughter establishments for meat,

poultry, and egg products in the United States. These personnel act as front line inspectors and investigators; they provide surveillance to protect the Nation's food supply and further the mission of the Food Safety and Inspection Service.

**Protects Health Outcomes for Pregnant Women, Infants, and Young Children.** The Budget requests \$5.8 billion to serve all projected participants in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). This program provides nutritious supplemental food packages, nutrition education and counseling, and health and immunization referrals to low-income and nutritionally at-risk pregnant and postpartum women, infants, and children.

*"Our farmers deserve a Government that serves their interest and empowers them to do the hard work that they love to do so much."*

President Donald J. Trump  
January 8, 2018

**Reforms the Food Safety Net While Promoting Work.** The Budget proposes a bold new approach to nutrition assistance that combines traditional Supplemental Nutrition Assistance Program (SNAP) benefits with 100-percent American grown foods provided directly to households and focuses administrative reforms on outcome-based employment strategies. In addition, the Budget expands on previous proposals to strengthen expectations for work among able-bodied adults, preserve benefits for those most in need, promote efficiency in State operations, and improve pro-

gram integrity. Combined, these reforms maintain the Administration's commitment to ensuring Americans in need of assistance have access to a nutritious diet while significantly reducing the cost to taxpayers.

**Reorganizes the Department.** The Budget supports the Secretary's efforts to reorganize Agency functions to improve the customer and consumer experience. Under the new structure, the Farm Service Agency, Risk Management Agency, and the Natural Resources Conservation Service would be merged under the Under Secretary for Farm Production and Conservation. In addition, the Secretary has established an Under Secretary of Trade and Foreign Agricultural Affairs to sharpen USDA's focus on increasing agriculture exports to foreign markets. The Budget also supports consolidating fair practices, standards work, and commodity procurement within the Agricultural Marketing Service. These, and other related reorganizations, are expected to improve the way USDA delivers its services. In addition, the Budget supports the creation of a business innovation center in each mission area that would handle support activities in order to avoid duplicative functions and maximize collaboration between agencies.

**Improves Customer Service.** Modernizing program delivery and improving customer service at USDA is an important focus of the Administration. USDA is partnering with the White House Office of American Innovation to modernize its systems undertaking four key strategies: strengthening strategic IT governance; consolidating end-user services and data centers; enabling a strategic approach to data management and introducing data-driven capabilities; and improving the USDA customer experience. The Budget supports these efforts to improve service delivery by requesting funds to develop a centralized customer service portal for customers served by the Department's three service center agencies. This single, integrated, producer-centric web portal would provide expanded and more effective and efficient access to useful online USDA services to meet the needs of agricultural producers. By optimizing service delivery, USDA can support agricultural producers to reach their productive potential and advance the U.S. economy.

**Prioritizes Agricultural Research.** USDA research plays a key role in fostering innovation and advancing technologies that increase the efficiency, sustainability, and profitability of American

agriculture. As such, the Budget prioritizes the USDA research portfolio by funding competitive research through the Department's flagship competitive research grant program, the Agriculture and Food Research Initiative (AFRI). The Budget requests \$375 million for AFRI, consistent with the 2017 enacted level. The Budget also requests formula funding for research and extension activities at land-grant universities at the 2017 enacted level. The Budget proposes more than \$1 billion for the Agriculture Research Service, which conducts in-house basic and applied research. Funding is targeted to achieve the President and Secretary's vision of advancing the competitiveness of American agriculture and nutritional security. This funding level would enable USDA to focus on priority research areas in the Farm Bill such as plant and animal health and production. The Budget also proposes to transfer operational responsibility for the National Bio and Agro-Defense Facility (NBAF) from the Department of Homeland Security to USDA and requests \$42 million for operations costs in 2019. Once construction is complete, USDA would operate the NBAF and use the facility to study diseases that threaten the animal agricultural industry and public health.

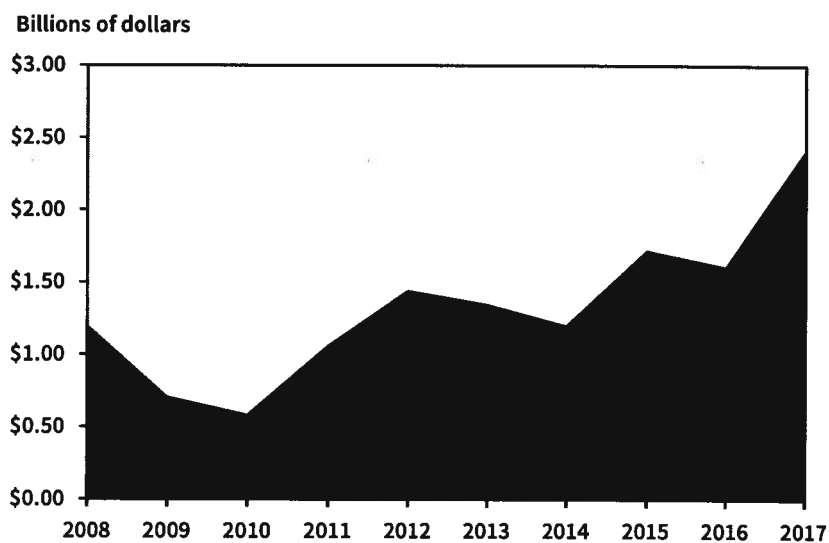
**Streamlines and Refocuses USDA Statistical Activities to Core Mission Responsibilities.** The Budget proposes to streamline the research efforts of the Economic Research Service by eliminating low priority research that is being conducted within the private sector and by non-profits and focusing on core data analyses in line with priority research areas. The Budget fully funds the anticipated needs for the release of the Census of Agriculture and provides a framework to better streamline the Department's statistical functions, leverage administrative efficiencies, and focus on core data products similar to other statistical agencies elsewhere within the Government.

**Educates America's Next Generation of Farmers.** The Budget requests \$50 million to increase agriculture science literacy programs and other community based efforts, such as 4H Clubs. These programs are a key component in exposing students to agriculture, developing necessary skillsets, and providing an awareness of the vast career opportunities in the agriculture sector. Developing a future agriculture workforce is not only critical to the Nation's food security, but also vital in promoting rural prosperity and improving quality of life.

**Supports Trade and U.S. Agriculture Abroad.** USDA's Foreign Agricultural Service works to improve foreign market access for U.S. agricultural products, build new markets, improve the competitive position of U.S. agriculture in the global marketplace, and provide technical assistance to foreign countries. The Budget requests funding to support trade policy, trade promotion activities, and capacity building abroad. In addition, the Animal and Plant Health Inspection Service also helps facilitate trade by keeping agricultural industries free from pests and diseases, and certifying that agriculture and food products meet importing countries' entry requirements.

**Proposes a Comprehensive Solution to Wildfire Suppression Funding.** The Forest Service routinely exceeds the funds appropriated to fight wildfire, covering these

**Forest Service Spending on Wildfire Suppression**



Source: National Interagency Fire Center and USDA Forest Service (in nominal dollars).

costs through transfers from other land management programs. For example, in 2017, Forest Service wildfire suppression spending reached a record \$2.4 billion as a result of increasing frequency and severity of wildfires, necessitating transfers of \$527 million from other programs. Historically, these transfers have been repaid in subsequent appropriations; however, “fire borrowing” impedes the missions of land management agencies to reduce the risk of catastrophic fire and restore and maintain healthy functioning ecosystems. To resolve concerns about the sufficiency of land management and funding wildfire suppression, the Budget responsibly funds 100 percent of the rolling 10-year average cost for wildfire suppression in the Departments of Agriculture and the Interior within discretionary budget caps. Similar to how unanticipated funding needs for other natural disasters are addressed, the Budget proposes a separate fund that would include an annual cap adjustment appropriation for wildfire suppression operations in order to ensure that adequate resources are available to fight wildland fires, protect communities, and safeguard human life during the most severe wildland fire seasons. In addition, the Administration believes that meaningful forest management reforms to strengthen our ability to restore the Nation’s forests and improve their resilience to destructive wildfires should be a part of any permanent solution.

**Modernizes Inspection Activities.** Currently, the cost to support programs under the Federal Grain Inspection Service is funded with taxpayer dollars. The Budget proposes to offset this cost by assessing a fee to the companies that benefit directly from these programs. Similarly, the Budget proposes a user fee to cover the cost of providing Agricultural Quarantine and Inspections (AQI) within the United States, which is consistent with how AQI activities are funded for passengers and cargo originating outside of the United States.

**Supports Farmers and Rural Communities through Lending.** USDA invests in rural infrastructure to lift up low-income rural communities through its community facilities and water and wastewater direct loan programs. Through the Secretary’s leadership of the Task Force on Agriculture and Rural Prosperity (Task Force), the Department has identified actions to improve the quality of

### Promoting Prosperity in Rural America

In April 2017, the President issued Executive Order 13790, “Promoting Agriculture and Rural Prosperity in America,” which established an inter-Departmental Task Force.

This Task Force, chaired by the Secretary of Agriculture, has identified barriers to economic prosperity in rural America and made recommendations on how innovation, infrastructure, and technology can assist agriculture and help rural communities thrive.

Supporting this effort, the Budget takes action to address problems by promoting electronic connectivity through broadband grants and loans for rural communities, and reducing regulatory burden for farmers.

life and expand economic development in rural communities. Many of these actions are supported through investments made in USDA lending activities to rural utilities and communities, and those that strengthen investments in housing programs. The Budget supports a \$3.5 billion loan level for community facility direct loans, which provide assistance to rural communities to develop or improve essential public services and facilities across rural America, such as health clinics or fire and rescue stations. The Budget also requests \$1.2 billion in direct loans for rural communities unable to get financing elsewhere to build and rehabilitate water and wastewater treatment facilities. USDA assists approved lenders in providing low- to moderate-income households the opportunity to own their primary residence through the single family housing guaranteed loan program. This program works through the private credit market and provides guarantees that collateralize private sector lending. The Budget supports a robust guaranteed single family housing loan level of \$24 billion.

In addition, the Budget requests a loan level of \$8 billion to support farm lending, providing crucial operating

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capital through the Department's suite of farm loan programs, including loans that aid farmers in owning and operating their farms.

**Promotes E-connectivity in Rural Areas.** Electronic connectivity is fundamental for economic development, innovation, advancements in technology, workforce readiness, and an improved quality of life—reasons why such access was identified as a critical component by the Task Force. Unfortunately, access to affordable high-speed internet in rural and tribal areas still lags behind that of urban areas. Tremendous opportunities are unlocked when next generation networks connect rural communities, allowing doctors to reach patients, students to access knowledge, and small businesses to expand with access to online marketing, credit card processing, and online banking. To provide rural communities with modern information access, the Budget proposes \$30 million to fund broadband grants, \$23 million in broadband loans, and \$24 million to fund distance learning and telemedicine grants.

**Supports Comprehensive Farm Safety Net Reforms and Reduces Waste.** The Budget proposes to optimize and improve crop insurance and commodity programs in a way that maintains a strong safety net. The Budget does this while also achieving savings, eliminating subsidies to higher income farmers, and reducing overly generous crop insurance premium subsidies to farmers and payments made to private sector insurance companies. The Budget includes a bold set of proposals, including those that would reduce the average premium subsidy for crop insurance from 62 percent to 48 percent and limit commodity, conservation, and crop insurance subsidies to those producers that have an Adjusted Gross Income of \$500,000 or less.

In addition, the Budget proposes reductions to overly generous subsidies provided to participating insurance companies by capping underwriting gains at 12 percent, which would ensure that the companies receive a reasonable rate of return given the risks associated with their participation in the crop insurance program. The Budget proposes to eliminate an unnecessary and separate payment limit for peanut producers and limit eligibility for commodity subsidies to one manager per farm.

The Budget also includes proposals to streamline Federal conservation efforts to focus on programs that protect environmentally sensitive land and increase conservation practice implementation.



## DEPARTMENT OF COMMERCE

### Highlights:

- The Department of Commerce (DOC) promotes job creation and economic growth by ensuring fair and secure trade, providing the data necessary to support commerce, securing America's national security and technological leadership through export controls and an effective patent system, and fostering innovation by setting standards and conducting foundational research and development.
- The Budget request for DOC prioritizes and protects investments in core Government functions such as preparing for the 2020 Decennial Census, providing the observational infrastructure and personnel to produce timely and accurate weather forecasts, and enforcing laws that promote fair and secure trade.
- The Budget requests \$9.8 billion for DOC (including changes in mandatory programs), a \$546 million or a 6-percent increase from the 2017 enacted level.

### The President's 2019 Budget:

DOC contributes to U.S. economic growth and prosperity through a broad portfolio of business, data, and science-driven programs that are used by American companies, Government officials, and citizens for decision-making every day. The Budget focuses on supporting these core missions in ways that enhance economic security, national security, and technological leadership, and protect the taxpayer through streamlined and effective implementation.

Accordingly, the Budget provides strong support for high priority, mission-critical programs such as the 2020 Decennial Census, trade enforcement, intellectual property, weather and Earth observations, and spectrum management. In order to adequately fund these priorities, the Budget reduces funding for extramural grants, eliminates duplicative or unnecessary programs, and consolidates others. These choices support American prosperity, the national economy, and the interests of all taxpayers.

**Supports a Fair, Modern, and Accurate 2020 Decennial Census.** The Decennial Census is a constitutional requirement and DOC's highest priority in 2019. The Budget provides \$3.8 billion, an increase of more than \$2.3 billion, for the U.S. Census Bureau. This additional funding prioritizes fundamental investments in information technology and field infrastructure, which would allow the Bureau to continue preparations to conduct a modern, efficient, and accurate 2020 Decennial



Census. An accurate Decennial Census is imperative because of the important role this data plays in shaping the political landscape and informing the policy making process. Most importantly, the Decennial Census governs the apportionment of seats in the House of Representatives allocated to the States. In addition, Census data is used by governmental entities at the State and local levels for defining the representative boundaries for congressional districts, State legislative districts, school districts, and voting precincts. Further, Census data informs the allocation of slightly more than \$675 billion annually in Federal funds to local communities, supporting a wide range of Federal and non-Federal policies, such as homeland security, education, and infrastructure. The Budget's substantial investment in the 2020 Decennial recognizes the importance of this program.

**Promotes Free and Fair Trade.** The Budget includes an additional \$3 million for the Department's International Trade Administration (ITA) to expand and enhance the Department's efforts to level the global playing field for U.S. businesses, and provides slightly more than \$90 million total for ITA's Enforcement and Compliance unit. This would allow ITA to conduct robust investigations into alleged trade violations, aggressively advocate for U.S. businesses facing tariff and non-tariff barriers abroad, and increase the capacity to closely review proposed foreign investments in U.S. businesses.

## Increasing Trade Enforcement

The Administration has taken strong action to support its commitment to free and fair trade.

Trade Enforcement Activity	2016	2017
Anti-Dumping/ Countervailing Duty Investigations Initiated	52	↑ 82
Trade Agreement Compliance Cases Resolved Successfully	39	↑ 47
Trade Barriers Reduced, Removed or Prevented	79	↑ 92

Source: DOC

In the first year of the Administration, the Department has already initiated almost 60 percent more anti-dumping and countervailing duty investigations than in the previous year. These investigations are key to stemming the surge of unfairly traded imports from entering the United States. The Department has also increased the number of successfully resolved trade agreement compliance cases by 21 percent and the number of trade barriers reduced, removed, or prevented by 16 percent compared to the previous year, demonstrating a commitment to holding trading partners accountable for their free trade commitments. The additional resources requested in the Budget would continue to support the Administration's aggressive approach to a global market that allows U.S. businesses to compete fairly.

**Protects Lives and Property.** Advance notice provided by weather forecasts enables the Nation's leaders, decision makers, and media to provide better warnings and

advisories to first responders, the public, and businesses. Getting this right reduces the catastrophic loss of human life and property and the damaging effects on the national economy. Polar-orbiting satellites are critical to this mission, providing space-based observations that improve the accuracy of weather predictions. In recognition of the value these satellites provide, the Budget includes \$878 million for the National Oceanic and Atmospheric Administration's (NOAA) polar weather satellites. These funds would allow NOAA to operate satellites currently in orbit and continue the development of its future polar orbiting satellites, reducing the risk of a devastating gap in coverage.

**Advances the Development of Next Generation Communications Technologies.** The Budget continues to support the National Telecommunications and Information Administration (NTIA) in representing the U.S. interest at multi-stakeholder forums on internet governance and digital commerce. The Budget supports the commercial sector's development of next generation wireless services, including 5G and the Internet of Things, by funding NTIA's mission of evaluating and ensuring the most efficient use of spectrum resources by Government users. Ensuring adequate access to scarce spectrum resources by both the commercial and Government sectors is a crucial factor for economic growth and national security.

**Modernizes Support for Minority Owned Businesses.** Minority owned businesses face unique challenges in obtaining the capital and support necessary to start and operate businesses. The Minority Business Development Agency (MBDA) within the Department of Commerce is solely dedicated to addressing these challenges and helping minority businesses thrive. To further this mission, the Budget proposes to reform the operations of MBDA to expand its reach and better help it meet its programmatic objectives. These reforms would eliminate the business outreach centers operated by MBDA, which are duplicative of programs operated by other Federal agencies, but would establish MBDA as a policy office that is positioned to advocate for minority businesses across all Federal programs.

**Eliminates Duplicative and Unnecessary Programs.** American prosperity depends on fiscal restraint to direct funding to the highest priorities. The Budget eliminates the Economic Development Administration, which provides small grants with limited measurable impacts and duplicates other Federal programs, such as Rural Utilities Service grants at the U.S. Department of Agriculture and formula grants to States from the Department of Transportation. By eliminating this Agency, the Budget reduces waste and saves approximately \$300 million from the 2017 enacted level.

The Budget also eliminates Federal funding for the Manufacturing Extension Partnership (MEP) program, which subsidizes up to half the cost of State centers that provide consulting services to small- and medium-sized manufacturers. This proposal saves \$125 million, and directs MEP centers to transition solely to non-Federal revenue sources as originally intended when the program was established.



## DEPARTMENT OF DEFENSE

### Highlights:

- The Department of Defense (DOD) provides the military forces needed to deter war and to protect the security of the United States.
- Aligned with the new National Security and National Defense Strategies, the Budget expands the military's competitive space, builds a more lethal force, achieves greater performance at affordability and speed, and enhances posture for a more capable alliance and partnership network. The Budget is critical for protecting the homeland, promoting American prosperity, preserving peace through strength, and advancing American influence.
- The Budget requests \$686 billion for DOD, an \$80 billion or 13-percent increase from the 2017 enacted level. This includes \$597 billion for the base budget, and \$89 billion for Overseas Contingency Operations.

### **The President's 2019 Budget:**

#### ***Preserves Peace through Strength***

The Budget requests the resources DOD needs to defend the homeland, remain the predominant military power in the world, maintain a world order that reflects America's values, support America's allies and partners, promote America's prosperity, and advance America's security interests. The United States faces an increasingly competitive and dangerous international security environment, characterized by the reemergence of great power competition with China and Russia, dangerous new technologies, empowered non-state actors, and the proliferation of weapons of mass destruction. The Budget requests resources needed to compete with great powers and others, deter conflict, and win the Nation's wars. The Budget builds a more lethal, ready, and larger joint force that, combined with a robust system of allies and partners, would sustain American influence and preserve stable regional balances of power that have proven conducive to peace and prosperity.

The Budget supports the Department's pursuit of innovation and reform, while making disciplined increases to sustain America's military advantage and to account for the long-term costs of contingencies. Over the 10-year budget window, funding for DOD is \$1 trillion above projections from the previous administration, dramatically improving the warfighting ability of the joint force. Failure to provide adequate funding to meet these defense objectives would embolden America's

enemies, thereby increasing the risk of armed conflict, and result in decreased U.S. influence which would erode alliances and partnerships, and reduced access to markets which would contribute to a decline in prosperity and standard of living.

**Compete—Deter—Win.** The surest way to prevent war is to be prepared to win one. The Budget promotes peace through strength, and continues multiyear investments to develop a lethal, agile, and resilient force. Long-term strategic competitions with China and Russia are the principal priorities for the Department. These competitions require both increased and sustained investment, reflected in the Budget request, because of the magnitude of the threats they pose to U.S. security and prosperity today, and the potential for those threats to increase in the future. Concurrently, the Budget requests funding for sustained DOD efforts to deter and counter rogue regimes such as North Korea and Iran, defeat terrorist threats to the United States, and consolidate gains in Iraq and Afghanistan while ensuring these approaches are resource-sustainable. The Budget ensures the United States can maintain a joint force that possesses decisive advantages for any likely conflict, while remaining proficient across the entire spectrum of conflict.

The Budget ensures that DOD has the right force posture and capabilities to account for the uncertainty that exists in the changing global strategic environment. Modern adversaries have built sophisticated anti-access and area-denial networks that require U.S. forces to rely on resiliency, lethality, speed, and surprise to win. The Budget prioritizes maintaining ready forces for major combat, while providing options for proactive and scalable employment of the joint force no matter what mission it is asked to undertake.

In addition, the Budget continues investments to increase U.S. defense posture and presence in the Indo-Pacific Region. The Budget supports the Department's long-term strategy of deterring Chinese military coercion and aggression in the Indo-Pacific region through strengthened forward presence. The Budget request provides the Department with the necessary armament, infrastructure, and logistics to address threats from North Korea, including missile defenses for America's homeland. In addition, the Budget strengthens relationships with allies and partners in the region through continued military exercises and security cooperation.

The Budget also requests the necessary resources to maintain the U.S.'s unwavering commitment to peace and security in Europe. The Budget requests more than \$6.3 billion for DOD's European Deterrence Initiative (EDI), a multiyear program that is rebuilding a U.S. combat-credible forward military presence in Europe and building partner capacity in order to better counter Russian coercion and deter Russian aggression in the region. The EDI request maintains a robust heel-to-toe schedule for U.S. forces to train with and advise North Atlantic Treaty Organization (NATO) allies and partners, especially in Eastern Europe, and sustains the United States as a framework nation in NATO's Enhanced Forward Presence mission by maintaining a U.S. battalion in Poland. EDI would also increase prepositioned U.S. stocks, modernize Army equipment in Europe, enhance the Air Force's ability to rapidly scale operations in contested environments, harden communications and logistical infrastructure, catalyze front line allies' and partners' efforts to defend themselves, and provide \$250 million to help Ukraine protect its territorial sovereignty.

The Budget supports a U.S. military presence in the Middle East necessary to protect the United States and its allies from terrorist attacks and preserve a favorable regional balance of power. The Budget would enable DOD to assist regional partners in strengthening their institutions and capabilities to conduct counterterrorism and counterinsurgency efforts, procure interoperable missile defense and other capabilities to better defend against active missile threats, and neutralize Iran's malign activities in the region.

**Builds a More Lethal, Resilient, and Agile Force for Great Power Competition.** The Budget begins what would be a sustained multiyear effort to transition the joint force from its post-Cold War mindset and posture toward a new paradigm of thinking about and preparing for the possibility of major war. History has taught us—from the Civil War through the World Wars of the 20<sup>th</sup> Century—that wars fought during periods of rapid technological change tend to be deadly and destructive in ways that had previously seemed unimaginable. The Budget begins the process of averting such a catastrophe by preparing the joint force to exploit new technologies and concepts to become more lethal, resilient, and agile.

- **Lethality**—the Budget invests in a variety of new weapons systems capable of delivering lethal fires in contested domains, while simultaneously developing leap-ahead systems that would enable the joint force to operate in new ways to defeat aggression in the future.
- **Resilience**—a powerful punch is meaningless if married to a glass jaw. The Budget therefore makes investments to ensure that the joint force can operate effectively while under attack in all domains. This includes investments to: harden and disperse forward bases and posture; make command and control, intelligence, surveillance, reconnaissance, position, navigation, and timing capabilities more resilient to attacks; improve countermeasures; and build up stockpiles of key munitions and materiel.
- **Agility**—as a global superpower with myriad responsibilities, the United States does not have the luxury of focusing on one problem at a time. The United States must be able to respond to a variety of contingencies simultaneously. While this poses a difficult challenge for the joint force, America’s global posture, logistics and sustainment capabilities, and constellation of allies and partners gives the United States a unique advantage that no competitor or adversary can match. The Budget makes investments in logistics, sustainment, forces, and posture that would enable the joint force to operate with agility globally.

**Ensures the Readiness of U.S. Armed Forces.** The Budget provides the resources necessary to continue rebuilding military readiness, which has been degraded by budget reductions imposed by the Budget Control Act and more than 16 years of warfighting. Increased funding for the U.S. Army would modernize existing forces, provide additional training for U.S. soldiers, and establish new security assistance brigades to support counterterrorism efforts abroad. The Budget funds continuing efforts to improve Navy and Marine Corps aviation readiness, with increases for maintenance, spare parts, and flying hours. In response to recent Navy surface fleet incidents, the Budget requests more than \$70 million in additional resources to enhance surface fleet equipment and training. The Budget also fully funds Air Force flight training, provides resources to alleviate pilot shortages, and invests in training for high-end combat to ensure the United States can effectively confront its most technologically advanced adversaries.

**Sustains the Defense Industrial Base.** At the direction of the President, DOD is undertaking a whole-of-Government assessment of the health and strength of America’s manufacturing and defense industrial base and identifying any potential gaps in its capabilities. As part of this broad assessment, the Budget proposes to ensure sustained investment in the defense industrial base as a key component of economic and national security, recognizing that critical facilities, workforce skills, and the long-term health of the defense industrial base are fundamental to economic and national security.

**Modernizes the Nuclear Deterrent.** A tailored and flexible American nuclear deterrent is key to protecting national security and future prosperity for both the homeland and America’s allies and partners. In line with the Nuclear Posture Review, the Budget supports a nuclear enterprise that is appropriately tailored to deter 21<sup>st</sup> Century threats. To that end, the Budget requests \$24 billion to

modernize and sustain the three legs of the nuclear triad—land, sea, and air—as well as nuclear command, control, and communications systems.

**Invests in Military Hardware to Meet the Challenges of Tomorrow.** The Budget makes significant investments in new, improved hardware to ensure that the Army, Air Force, Navy, and Marine Corps remain lethal and resilient even against technologically advanced adversaries. This includes funding to harden equipment against cyber-attacks. These investments include:

- **Funding Cost-Effective Capabilities for Irregular Warfare and Counterterrorism**—recognizing the enduring nature of irregular warfare and counterterrorism, the Budget requests funding to develop more cost-effective means of conducting these missions—including Army Security Force Assistance Brigades and Air Force affordable light-attack aircraft. The Budget also prioritizes efforts to ensure that the burden of responding to global crises is borne globally, rather than disproportionately by the people and the economy of the United States.
- **Investing in Ground Combat Capabilities**—the Budget funds critical ground combat capabilities including new investments in armored vehicles, long-range artillery, amphibious vehicles, rotorcraft, and munitions. The Budget accelerates the modernization of the Army’s armored brigades to four over the five-year window and adds a 16th heavy combat team. The Budget also supports the Marine Corps’ 24 active infantry battalions and 18 active MV-22 Osprey squadrons.
- **Maintaining Control of the Seas**—continuing the President’s commitment to expand and rebuild the U.S. Navy fleet, the Budget increases the total number of ships by procuring 10 ships in 2019 to deter threats and maintain control of the sea.
- **Developing and Procuring Advanced Aircraft**—the Budget request supports continued development and procurement of advanced fighter aircraft, bombers, tankers, and other support aircraft. The Air Force’s investment focuses on modernization of its tactical fighter aircraft fleet with the advanced F-35A stealth fighter, development of the next generation stealthy bomber, and procurement of the KC-46 aerial refueling tanker. The Budget would enable the Air Force to grow its fighter force from 55 combat squadrons to 58 squadrons by the end of the five-year planning period and would increase procurement of Air Force F-35 fighters from 250 in the five years of the 2018 Budget request to 258 in the five years of the 2019 Budget request. The Budget also accelerates the modernization of the existing F-16 fleet with active electronically scanned array antennas, radar warning systems, and the multifunctional information distribution Line 16 tactical airborne terminal system. The major priority for the Navy and Marine Corps is to modernize their fighter aircraft fleets with procurement of the F-35B and C, and to reduce the strike fighter shortfall through procurement of additional F/A-18E/Fs.

**Innovates at the Speed of Relevance.** Worldwide advances in technology are regularly changing the nature of the threats America faces and proliferating threats to new actors. Nations that are best able to adapt and integrate new technologies—in order to create speed and surprise across multiple domains in the fight—would prevail. The Budget’s key areas of focus include artificial intelligence, autonomous systems, and hypersonics. The Budget requests more than \$84 billion in research, engineering, and prototyping activities to maintain technical superiority.

**Grows the Military.** The Budget increases military personnel by 16,400 servicemembers compared to the end strength level authorized in the National Defense Authorization Act for 2018. These additional servicemembers would allow DOD to fill gaps in combat formations and serve as critical enablers in America’s national defense strategy.

**Invests in Innovative Defense Intelligence Capabilities.** The Budget restores funding to combat support agencies to improve intelligence support to the warfighter and grows the analytical capacity at the Combatant Command Intelligence Centers. The Budget invests in intelligence, surveillance, and reconnaissance capabilities that would expand the competitive space through a more lethal, rapidly innovating defense intelligence enterprise.

**Bolsters Missile Defenses.** The Budget supports the President's initiative to accelerate and expand urgent missile defeat and defense enhancements, and continues priority investments proposed by the Administration and enacted by the Congress in the Department of Defense Missile Defeat and Defense Enhancements Appropriations Act, 2018. The Budget increases the capability and capacity of the United States to detect, defeat, and defend against any North Korean use of ballistic missiles against the United States, its deployed forces, allies, and partners. For missile defense, the Budget supports the procurement of 20 additional Ground-Based Interceptors (GBIs). The Administration plans to increase the number of deployed GBIs to 64, including the new GBI missile field at Fort Greely, Alaska, to protect the homeland against North Korean and other intermediate- and long-range ballistic missile threats.

**Prevents the Resurgence of the Islamic State of Iraq and Syria (ISIS), al Qaeda, and other Jihadist Terrorists.** The Budget requests the funding necessary to ensure the lasting defeat of ISIS. Building on ISIS's territorial defeat in Iraq and Syria, DOD would prevent any resurgence by working with partner forces and agencies to stabilize liberated cities, secure borders, retain territorial control, and disrupt ISIS's capability to attack the U.S. homeland and America's allies. The Budget also requests funding for DOD to address the threat from ISIS branches outside Iraq and Syria, and to protect the United States against a resurgence of al Qaeda.

**Promotes Stability and Security in South Asia.** The Budget furthers the U.S. goal of a stable and secure South Asia by supporting the Afghan government and security forces in their fight against Taliban insurgents and jihadist terrorist organizations such as al Qaeda and ISIS. The Budget requests more than \$5 billion for continued U.S. training and assistance for the Afghan security forces and would enable U.S. forces to conduct counterterrorism operations to ensure that the region cannot be used by jihadist terrorist groups to plot transnational attacks against the U.S. homeland, citizens overseas, or allies and partners. The Budget also continues to include funding to support America's partnership with Pakistan, contingent on Pakistan taking appropriate action to expand cooperation in areas where interests converge and to address areas of divergence, in line with the Administration's South Asia strategy.

**Renews the Nation's Leadership and Freedom of Action in Space.** The Budget accelerates investments in space situational awareness, the Global Positioning System, defensive measures, and other areas to improve the resiliency of DOD space systems in the face of increasing adversarial threats. In combination with architectural diversity and proliferation, the Budget preserves space capabilities for national leaders and combatant commanders in order to maintain strategic stability and ensure battlefield dominance across the spectrum of conflict.

**Prioritizes Cyber Activities.** The Budget continues to place a high priority on cyber security and those responsible for providing it by requesting more than \$8 billion in 2019 to advance DOD's three primary cyber missions: safeguarding DOD's networks, information and systems; supporting military commander objectives; and defending the Nation. This investment would also provide the necessary resources to sustain the 133 Cyber Mission Force (CMF) teams established at Cyber Command. Since their inception in 2013, the CMF teams have grown in capability and capacity, and all teams are on track to be fully operational by the end of 2018.

### ***Enhances the Quality of Life of Servicemembers and their Families***

**Provides Fair Compensation for Servicemembers and Supporting Military Families.** Military compensation must be competitive to recruit and retain the most qualified men and women to serve in an All-Volunteer Force. The Budget proposes a calendar year 2019 military pay raise of 2.6 percent—the largest increase since 2010. The Budget also requests funding for a full range of compensation programs, from monthly incentive pays to recently expanded retirement benefits. In addition, the Budget requests funding to continue important programs that improve the quality of life for military families, and ensure they receive the support they need throughout every stage of their family members' service.

**Improves TRICARE.** DOD continues to modernize TRICARE to provide greater flexibility and access to medical care for servicemembers and their families. TRICARE Select would replace TRICARE Standard and Extra. As a result, beneficiaries would notice improved coverage for preventive services with TRICARE. The current three Managed Care Regions would be combined into two Managed Care Regions, providing beneficiaries expanded access to network providers. The rollout of GENESIS, DOD's integrated medical and dental electronic health record, would accelerate the sharing of patients' records across military treatment facilities and provide an electronic health record that focuses on quality, safety, and patient outcomes.

### ***Drives Resource Discipline and Accountability***

**Reforms the Department to Reinvest Resources in Warfighter Priorities.** DOD management and support functions must enable and empower the warfighter with the knowledge, equipment, and support systems to fight and win the Nation's wars. DOD will adapt its organizational and support structures to best support the joint force and achieve savings that can be reinvested in higher priority needs, such as force readiness and modernization. For example, DOD is leveraging the scale of its operations to drive greater efficiency in procurement of materials and services, saving billions in 2019. At the same time, DOD is pursuing opportunities to consolidate and streamline contracts for logistics, information technology, and other support services. The Department will also identify options to reduce excess property and infrastructure.

**Audits the Department.** Better management begins with effective financial stewardship. With more than \$2.4 trillion in assets spread across 26 stand-alone reporting entities, the Department's full financial statement audit is the largest ever undertaken by an agency of the U.S. Government. DOD has committed to performing annual financial statement audits to bolster accountability and public confidence in the Department's fiscal discipline and to modernize its business practices and systems. The Budget will mark the release of results from DOD's first-ever consolidated financial statement audit. The Department anticipates this audit will identify procedural and system deficiencies, consistent with the initial audits of other large Chief Financial Officers Act agencies and not unusual for an audit of this scale and complexity. Accordingly, DOD has shifted its focus from audit preparation to remediation of audit findings. Upon release of the audit report, the Department will address findings by holding the military departments and defense agencies accountable for the development and implementation of their corrective actions, with a goal of meaningful, persistent progress toward a clean audit opinion. Armed with audit findings and remediation plans, DOD will provide more sound data to inform decision-making, while enhancing internal controls and business procedures to improve efficiency and effectiveness.





## DEPARTMENT OF EDUCATION

### Highlights:

- The Department of Education promotes excellence and access to opportunity in elementary, secondary, and postsecondary education. The Department focuses its mission on supporting States and school districts in their efforts to provide high-quality education to all students, on streamlining and simplifying funding for college, and on expanding access to new postsecondary options.
- The Budget maintains funding for essential K-12 formula grant programs that support the Nation's neediest students, while also delivering on the President's commitment to ensure that every child has the opportunity to attend a high-quality school that meets their unique educational needs.
- The Budget proposes to ensure students can successfully pursue various pathways of postsecondary education and training. The Budget invests in career and technical education, streamlines student loan repayment, and offers the opportunity to use Pell Grants for high-quality, short-term training.
- The Budget requests \$59.9 billion for the Department of Education, a \$7.1 billion or 10.5-percent decrease from the 2017 enacted level.

### **The President's 2019 Budget:**

Quality education exists when parents have a voice in choosing their child's K-12 schools and students have the tools they need to succeed. Decades of investments and billions of dollars in spending have shown that an increase in funding does not guarantee high-quality education. While the Budget reduces the overall Federal role in education, the Budget makes strategic investments to support and empower families and improve access to postsecondary education, ensuring a future of prosperity for all Americans.

### ***K-12 Education***

The Budget request for elementary and secondary education reflects the restoration of local control in education provided by the Congress in the reauthorization of the Elementary and Secondary Education Act (ESEA) by the Every Student Succeeds Act (ESSA). ESSA reauthorized the ESEA for the first time in 14 years and recognized that the primary responsibility for creating, improving, and sustaining education systems lies with States and local school districts. The Budget builds on these principles by ensuring the Department focuses on returning decision-making power back to States and districts and by giving parents more control over addressing their child's unique education needs.

The Budget maintains funding for essential formula grant programs that support the Nation's neediest students, including those in low-income communities and students with disabilities. The Budget also streamlines and refocuses the Federal investment in K-12 education by eliminating funding for 17 programs totaling \$4.4 billion that are duplicative, ineffective, or more appropriately supported through State, local, or private funds.

**Empowers Families to Choose the Schools that are Best for Their Children.** The Budget invests \$1.1 billion in school choice programs to expand the range of high-quality public and private school options for students, putting more decision-making power in the hands of parents and families. This investment serves as a down payment toward achieving the President's goal of an annual Federal investment of \$20 billion—for a total of an estimated \$100 billion when including matching State and local funds—in school choice funding. The Budget requests \$500 million to establish a new school choice grant program to support a wide range of innovative approaches to school choice. These include expanding existing private school choice programs to serve more low-income and at-risk students, developing new private school choice models, or supporting school districts' efforts to adopt student-based budgeting and open enrollment policies that enable Federal, State and local funding to follow the student to the public school of his or her choice. In addition, States and districts would have opportunities to leverage funding from Title I grants to support public school choice. The Budget requests \$500 million to fund the opening, expansion, and replication of high-quality public charter schools and the financing of charter school facilities. The Budget invests \$98 million to expand the number of public magnet schools, which offer specialized curricula and instructional programming. In addition, the Tax Cut and Jobs Act expands school choice by enabling families to use 529 savings plans to pay for private school tuition and home schooling costs.

**Provides High-Quality Special Education Services to Children with Disabilities.** To support State and local education agencies in providing high-quality special education services to more than 6.8 million children with disabilities, the Budget maintains the Federal investment in the Individuals with Disabilities Education Act (IDEA) formula and discretionary grant programs. The Budget invests \$12.8 billion for IDEA formula grants to States to support special education and early intervention services. In addition, the Budget requests \$222 million for discretionary grants to States, institutions of higher education, and other nonprofit organizations to support research, demonstrations, technical assistance and dissemination, and personnel preparation and development. These investments would ensure that high-quality special education and related services would meet the unique needs of children with disabilities and their families.

**Supports Implementation of School-based Opioid Abuse Prevention Strategies.** The opioid crisis has devastated families across the United States and strained the capacity of schools in affected communities to meet the academic and mental health needs of their students. To address these issues, the Budget invests \$43 million for School Climate Transformation grants to help school districts implement multi-tiered, evidence-based strategies to prevent opioid misuse and address associated behavioral and academic challenges through interventions such as trauma counseling, violence prevention, and targeted academic support. This funding would also support technical assistance centers that develop and provide opioid abuse prevention and treatment resources that would be publicly available to all schools and institutions of higher education.

### ***Higher Education***

The Budget continues support for Federal programs that help prepare low-income and minority students for postsecondary education, targeted student financial aid that helps students and families pay rising college costs, and programs that strengthen postsecondary institutions serving large proportions of minority students. The Budget also includes proposals that address student debt by

simplifying student loan repayment and redirecting inefficiencies in the student loan program to prioritize debt relief for undergraduate borrowers. These proposals would support congressional efforts to reauthorize the Higher Education Act to address student debt and higher education costs while reducing the complexity of student financial aid.

**Requires Colleges and Universities to Have Shared Accountability for Repayment of Federal Student Loans.** Investing in higher education generally provides strong value for students and taxpayers. However, some institutions consistently fail to deliver a quality education that enables students to successfully repay Federal student loans—leaving borrowers and taxpayers holding the bill. A better system would require postsecondary institutions accepting taxpayer funds to share a portion of the financial risk associated with student loans, in consideration of the actual loan repayment rate to ensure that the substantial taxpayer investment in higher education continues to provide strong value for students and the economy. The Administration looks forward to working with the Congress to address these issues.

**Reforms Student Loan Programs.** In recent years, income-driven repayment (IDR) plans, which offer student borrowers the option of making affordable monthly payments based on factors such as income and family size, have grown in popularity. However, the numerous IDR plans currently offered to borrowers overly complicate choosing and enrolling in the right plan. The Budget proposes to streamline student loan repayment by consolidating multiple IDR plans into a single plan. The single IDR plan would cap a borrower's monthly payment at 12.5 percent of discretionary income. For undergraduate borrowers, any balance remaining after 15 years of repayment would be forgiven. For borrowers with any graduate debt, any balance remaining after 30 years of repayment would be forgiven.

To support this streamlined pathway to debt relief for undergraduate borrowers, and to generate savings that help put the Nation on a more sustainable fiscal path, the Budget eliminates the Public Service Loan Forgiveness program, establishes reforms to guarantee that all borrowers in IDR pay an equitable share of their income, and eliminates subsidized loans. To further improve the implementation and effectiveness of IDR, the Budget proposes auto-enrolling severely delinquent borrowers and instituting a process for borrowers to consent to share income data for multiple years. To facilitate these program improvements and to reduce improper payments, the Budget proposes to streamline the Department of Education's ability to verify applicants' income data held by the Internal Revenue Service. These student loan reforms would reduce inefficiencies and waste in the student loan program, and focus assistance on needy undergraduate student borrowers instead of high-income, high-balance graduate borrowers. All student loan proposals would apply to loans originating on or after July 1, 2019, except those provided to borrowers to finish their current course of study.

**Expands Pell Grant Eligibility for Short-Term Programs.** There are many paths to a successful career in addition to a four-year degree. The Budget expands Pell Grant eligibility to include high-quality short-term programs. This would help low-income and out-of-work individuals access training programs that can equip them with skills to secure well-paying jobs in high-demand fields more quickly than traditional two-year or four-year degree programs.

**Improves Grantmaking and Maintains Support for Minority-Serving Institutions (MSIs) and Historically Black Colleges and Universities (HBCUs).** The Budget maintains important investments to support improvements in academic quality, institutional management and capacity, infrastructure, and student support services for MSIs and HBCUs. In particular, the Budget proposes to improve grantmaking by consolidating six MSI programs into a \$147.9 million formula grant, providing funds more institutions can count on and yielding program management efficiencies. The Budget continues to recognize the extraordinary contributions of HBCUs and requests more than

\$642 million to support HBCU-focused programs that strengthen their capacity to provide the highest quality education.

**Invests in Evidence-Based Postsecondary Preparation Programs.** The Budget proposes to restructure and streamline the TRIO and GEAR UP programs by consolidating them into a \$550 million State formula grant. These grants would support evidence-based postsecondary preparation programs designed to help low-income students progress through the pipeline from middle school to postsecondary opportunities. Given the statutory prohibition limiting the Department's ability to evaluate overall TRIO program effectiveness using the most rigorous methodologies, as well as budget constraints, the Budget supports a restructuring of the programs that leverages evidence-based activities and allows States more flexibility in meeting the unique needs of their students.

**Supports a Reauthorized Higher Education Act (HEA).** The Administration looks forward to working with the Congress to encourage colleges, universities, and other educational institutions to offer every student an accessible, affordable, and innovative education tailored to their needs that prepares them for lifelong learning and success. The Administration's principles for an HEA reauthorization include:

- expand Pell Grant eligibility for short-term programs;
- reform Federal student loan and repayment options;
- recalibrate the grant allocation process;
- ensure institutional accountability;
- reduce regulatory burdens;
- improve transparency;
- offer administrative updates and financial flexibility; and
- promote free speech on college campuses.

### ***Workforce***

In today's rapidly changing economy, it is more important than ever to prepare workers to fill both existing and newly created jobs and to prepare workers for the jobs of the future. The U.S. education system must provide access to affordable and quality education and training that includes career and vocational tracks. The Budget supports reforms to programs that would help students graduate with the skills necessary to secure high-paying jobs in today's workforce and contribute to the Nation's robust economy.

**Supports Career and Technical Education (CTE).** As part of the Administration's commitment to supporting the Nation's workforce, the Budget maintains \$1.1 billion in funding for CTE. This investment recognizes that students should have access to a full menu of postsecondary educational options including certificate programs, community colleges, and apprenticeships. At the secondary and postsecondary levels, CTE prepares students with the skills necessary to succeed in a broad array of careers and provides an alternate pathway to a traditional four-year degree. The Administration also looks forward to working with the Congress to reauthorize the Carl D. Perkins Act. The Administration's principles for Perkins reauthorization include ensuring that CTE programs prepare students for careers in science, technology, engineering, and mathematics fields and other high-demand areas; promoting partnerships between schools, businesses, and other community organizations; and expanding access to apprenticeship and other work-based learning.

**Revamps Federal Work Study to Emphasize Workforce Development.** The Budget proposes to reform the Federal Work Study program to support workforce and career-oriented training opportunities for low-income undergraduate students, not just subsidized employment as a means of financial aid, in order to create pathways to high-paying jobs. The program would allocate funds to schools based in part on enrollment of Pell recipients. Schools could fund individual students through subsidized employment, paid internships, or other designs, so long as the placements were career or academically relevant. Schools could also fund broader programs that serve multiple students that expose students to or build their preparedness for careers.

**Promotes Science, Technology, Engineering, and Mathematics (STEM) Education.** Consistent with the 2017 Presidential Memorandum on STEM education, the Budget provides a path forward to direct at least \$200 million to STEM education. Supporting STEM education is imperative to better equip America's young people with the relevant knowledge and skills that would enable them to secure high-paying, stable jobs throughout their careers. As the role of technology grows in driving the American economy, many jobs will increasingly require skills in STEM. The Budget supports STEM education through a variety of programs including those that test and replicate what works in education and a new, \$20 million grant program for STEM-focused career and technical education programs.

*"As part of my Administration's commitment to supporting American workers and increasing economic growth and prosperity, it is critical that we educate and train our future workforce to compete and excel in lucrative and important STEM fields."*

STEM Presidential Memorandum  
September 25, 2017

**Modernizes and Makes Government More Efficient.** The Budget reflects a number of reform proposals aimed at streamlining the Department of Education's internal organization and improving the Department's services to States, districts, postsecondary institutions, and the public, while reducing its workforce.

The Budget supports Federal Student Aid (FSA) in undertaking a monumental student loan servicing upgrade. FSA is reorganizing its fragmented servicing and operating infrastructure in order to provide an innovative, world-class financial services experience for its customers. The Next Generation Financial Services Environment at FSA will start with a mobile-first, mobile-complete engagement layer for all customer interactions that will link with an integrated but nimble new system. Integrated into every aspect of this modernization effort will be state-of-the-art cybersecurity protection. This technical reorganization and modernization effort will provide better service for the over 40 million customers served by FSA, including students and institutions, across the student loan lifecycle. The new environment will help increase awareness and understanding of Federal student aid opportunities and responsibilities, improve FSA's operational flexibility, and enhance cost and operational efficiency, producing better outcomes for students and taxpayers.

**Reduces Waste: Streamlines or Eliminates Ineffective or Redundant Programs.** The Budget eliminates funding for 29 discretionary programs that do not address national needs, duplicate other programs, are ineffective, or are more appropriately supported with State, local, or private funds. These eliminations would decrease taxpayer costs by \$5.9 billion and include the Supporting Effective Instruction State Grants, 21st Century Community Learning Centers, and Federal Supplemental Educational Opportunity Grant programs.

The Budget also reduces funding or consolidates 13 programs to yield program management efficiencies, focus on activities that are supported by the highest levels of available evidence, and empower

States and local entities to meet the unique needs of their students. These efficiencies for programs such as those supporting Minority Serving Institutions, TRIO, GEAR UP, and Federal Work Study would reduce costs by \$1.8 billion and support more targeted and effective uses of Federal resources. Overall, the Budget reduces waste in 41 discretionary programs, saving taxpayers more than \$7.7 billion.



## DEPARTMENT OF ENERGY

### Highlights:

- The mission of the Department of Energy is to advance U.S. security and economic growth through transformative science and technology innovation that promotes affordable and reliable energy and meets America's nuclear security and environmental clean-up challenges.
- The Budget protects American prosperity by making strategic investments to maintain global leadership in scientific and technological innovation and aggressively modernize the nuclear security enterprise that underpins the safety and security of Americans, both at home and abroad.
- The Budget requests \$29 billion for DOE, a more than 3-percent decrease from the 2017 enacted level.

### The President's 2019 Budget:

American leadership in science and technology is critical to achieving the Administration's highest priorities: national security; economic growth; and job creation. American ingenuity combined with free-market capitalism have driven, and will continue to drive, tremendous technological breakthroughs. The Budget for the Department of Energy (DOE) demonstrates the Administration's commitment to American energy dominance, making hard choices, and reasserting the proper role of the Federal Government. The Budget focuses resources on early-stage research and development (R&D) of energy technologies and reflects an increased reliance on the private sector to fund later-stage demonstration and commercialization activities. In so doing, the Budget emphasizes energy technologies best positioned to enable American energy independence and domestic job-growth in the near- to mid-term.

The Budget also reflects the critical role DOE has in protecting the safety and security of the American people, including by ensuring that nuclear and radiological materials worldwide remain secured against theft by those who might use them against the U.S. homeland or U.S. interests abroad. The Budget funds the modernization of nuclear weapons and ensures that the U.S. nuclear force is second-to-none. The Budget ensures continued progress on cleaning up sites contaminated from nuclear weapons production, and energy R&D. The Budget also continues support for a robust interim storage program and the licensing of the Yucca Mountain geologic repository, demonstrating the Administration's commitment to nuclear waste management.

In addition to the priorities laid out below, the Budget proposes the elimination of the Title XVII Innovative Technology Loan Guarantee Program, the Advanced Technology Vehicle Manufacturing Loan Program, and the Tribal Energy Loan Guarantee Program because the private sector is better positioned to finance the deployment of commercially viable energy and advanced vehicle manufacturing projects. The Budget also proposes the elimination of Advanced Research Projects Agency-Energy, recognizing the private sector's primary role in taking risks to commercialize breakthrough energy technologies with real market potential.

The Budget includes several reforms that realign, consolidate, or merge functions within the Department to improve efficiency and effectiveness, such as the consolidation of program-level international affairs activities into a single headquarters office. In addition, the Budget proposes a realignment of DOE program offices to elevate cybersecurity and energy security as priorities within the Department, with the goal of ensuring the security of the American people. DOE is also committed to eliminating waste, fraud, and abuse. For example, the Budget would avoid \$10 to \$12 billion in waste by terminating construction of the Mixed Oxide Fuel Fabrication Facility in favor of a plutonium disposition alternative. DOE will also continue to improve contract management and oversight to address potential fraud and abuse risks raised by the Government Accountability Office.

**Modernizes the Nuclear Arsenal.** The Budget for DOE nuclear security programs is aligned with Department of Defense requirements for deterring 21<sup>st</sup> Century threats and reassuring U.S. allies and partners. The Budget increases investments in the nuclear stockpile to guarantee it is modern, robust, flexible, safe, and effective. Specifically, the Budget supports completing production of the W76-1 Life Extension Program (LEP), preparing the B61-12 LEP and the W88 Alteration 370 for production in 2020, and continuing development of the W80-4 LEP.

**Revitalizes the Nuclear Security Enterprise's Aging Infrastructure.** Safe, secure, and modern infrastructure at the National Nuclear Security Administration's (NNSA) national laboratories, production plants, and Nevada National Security Site is essential to maintaining the U.S. nuclear deterrent and accomplishing DOE's other national security missions. The Budget makes significant investments in design and construction of facilities, with an emphasis on infrastructure related to strategic materials (e.g., uranium, plutonium, tritium, lithium) that are critical to the nuclear weapons stockpile. NNSA infrastructure is also an important part of a whole-of-government approach to supply chain assurance in microelectronics. NNSA must have a modern, secure, streamlined complex that would meet military requirements, keep the nuclear deterrent safe and effective, and enhance worker and public safety.

**Reduces Global Nuclear Threats.** Nuclear terrorism and the spread of nuclear weapons constitute two of the most critical threats to American safety and prosperity. The Budget invests in nonproliferation, counterterrorism, and emergency response programs to provide for the safety and security of the American people. The Budget accelerates the Cesium Irradiator Replacement Program, which would reduce the threat of radiological terrorism by permanently removing cesium sources that could be used in dirty bombs. The Budget begins procurement of replacement aircraft for NNSA's Aerial Measuring System to ensure the Nation maintains its radiation detection capabilities for emergency preparedness and response missions. In addition, the Budget supports the removal of additional nuclear materials from around the world and helping countries develop strong programs to secure those that remain, reducing opportunities for terrorists to acquire such material for use in a nuclear weapon.

**Maintains Safe Naval Nuclear Propulsion.** The Budget provides \$1.8 billion to support a strong U.S. Navy through NNSA's Naval Reactors (NR) program. NR works to provide the U.S. Navy with safe, reliable nuclear propulsion plants for submarines and aircraft carriers. The Budget includes



major investments to modernize NR's spent fuel handling infrastructure and develop the reactor systems for the *Columbia*-class ballistic missile submarine.

**Supports Cutting-Edge Research and Invests in Leading Scientific User Facilities to Enable Future Breakthroughs in Energy.** The Budget provides \$4.2 billion for the Office of Science to continue its mission to focus on early-stage research, operate the national laboratories, and continue high priority construction projects. Within this amount, \$445 million is for Exascale computing to help secure a global leadership role in supercomputing. The Budget would continue to ensure access to critical scientific user facilities including \$100 million for the Long Baseline Neutrino Facility/Deep Underground Neutrino Experiment and \$75 million to complete the Facility for Rare Isotope Beams.

**Continues Support for Cyber and Energy Security Initiatives across the Department.** Ranging from cybersecurity of the electrical grid to prioritization of early-stage R&D focused on hardening energy infrastructure, the Budget prioritizes the energy security for all Americans through continued investments that address cyber threats across the Nation's electrical grid. To ensure robust cybersecurity programs across the energy sector, the Budget Request provides funding in multiple programs, including slightly more than \$95 million in the reorganized Office of Cybersecurity, Energy Security, and Emergency Response with a renewed focus on early-stage activities that improve cybersecurity and resilience to harden and evolve critical grid infrastructure. These activities include early-stage R&D at national laboratories to develop the next generation of cybersecurity control systems, components, and devices including a greater ability to share time-critical data with industry to detect, prevent, and recover from cyber events.

**Unleashes an Era of Energy Dominance through Strategic Support for Innovation.** The United States has among the most abundant and diverse energy resources in the world, including oil, gas, coal, nuclear, and renewables. The ability of entrepreneurs and businesses to commercialize technologies that take full advantage of those resources is paramount to promoting U.S. economic growth, security, and competitiveness. That is why the Budget provides more than \$1.7 billion across the applied energy programs at DOE, which support early-stage R&D that enables the private sector to deploy the next generation of technologies and energy services that usher in a more secure, resilient, and integrated energy system.

*"When it comes to the future of America's energy needs, we will find it, we will dream it, and we will build it."*

President Donald J. Trump  
June 29, 2017

Within this amount, the Budget provides \$757 million for the Office of Nuclear Energy, prioritizing support for early-stage R&D on advanced reactor technologies, including small modular reactors, and advanced instrumentation and manufacturing methods. The Budget also provides more than \$300 million for R&D by the Office of Fossil Energy to support national laboratory research on clean, efficient fossil fuels and systems, and bolster early-stage critical materials R&D. In addition, the Budget provides more than \$180 million for the Department's Grid Modernization Initiative, a joint effort funded by the Office of Electricity Delivery, the Office of Energy Efficiency and Renewable Energy, and the new Office of Cybersecurity, Energy Security, and Emergency Response. The initiative aims to maintain progress on innovative technologies and operational approaches for achieving a more reliable, resilient, and secure electricity delivery system integrated with energy storage, renewable generation, smart buildings, and electric vehicles.

**Implements Reforms in the Environmental Management Program to Accelerate Clean Up of Waste and Contamination from Nuclear Weapons Production.** The Budget includes \$6.6 billion for 16 sites remaining to be completed. The Budget provides \$150 million to carry forward the 2018 Budget initiative to accelerate deactivation and decommissioning of selected high-risk excess facilities to protect human health and the environment, and support modernization of the Nuclear Security Enterprise.

**Proposes to Divest Federally Owned and Operated Transmission Assets and Authorize the Power Marketing Administrations (PMAs) to Charge Market Based Rates for Power.** The Budget proposes to sell the transmission assets owned and operated by PMAs, including those of Southwestern Power Administration, Western Area Power Administration, and Bonneville Power Administration. The Budget also proposes to authorize PMAs to charge rates based on comparable rates charged by for-profit investor-owned utilities, rather than being limited to cost-based rates, for electricity. The vast majority of the Nation's electricity needs are met through investor owned utilities. Reducing or eliminating the Federal Government's role in electricity transmission infrastructure ownership—thereby increasing the private sector's role—and introducing more market-based incentives, including rates, for power sales from Federal dams, would encourage a more efficient allocation of economic resources and mitigate risk to taxpayers.



## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### Highlights:

- The Department of Health and Human Services (HHS) works to enhance the health and well-being of Americans by providing effective health and human services and by fostering sound, sustained advances in the sciences underlying medicine, public health, and social services.
- The Budget supports critical investments to enable HHS to deliver on its mission, while also reducing funding or eliminating programs that are ineffective, inefficient, or duplicative. The Budget saves taxpayer dollars and helps move toward the President's vision of an accountable Government that is effective and efficient in its delivery of programs.
- The Budget addresses some of the Nation's most pressing public health needs, investing in efforts to combat the devastating opioid epidemic, making new investments in programs to treat individuals suffering from severe mental illness, and accelerating work on ending infectious diseases. The Budget invests in biomedical research, increases accountability for research dollars, and enhances the Government's preparedness for responding to infectious disease outbreaks or other man-made disasters. The Budget also includes proposals to lower drug costs, strengthen and protect the Medicare program, repeal and replace Obamacare, and provide States more flexibility in Medicaid.
- The Budget continues to invest in key programs and proposes innovative solutions that promote child well-being, build stronger families, and help low-income Americans move from welfare to work.
- The Budget requests \$68.4 billion for HHS, a \$17.9 billion or 21-percent decrease from the 2017 enacted level. This Budget funding level includes additional funds for program integrity and implementing the 21st Century CURES Act and the 2017 enacted funding levels do not include actual fee collections and contract support costs. The Budget proposes \$295 billion in mandatory savings, helping to put Federal spending on a sustainable path. In addition, the Budget includes \$675 billion in net mandatory savings across HHS and the Department of the Treasury to repeal and replace Obamacare.

### The President's 2019 Budget:

The Budget shows a clear commitment to a better future for all Americans and funds the highest priority HHS activities, such as addressing the opioid crisis, serious mental illness, and emergency preparedness. The Budget strengthens Medicare, repeals and replaces Obamacare, comprehensively reforms Medicaid, and includes a strong focus on program integrity for all health programs.

The Budget delivers on the President's vision to reorganize the Government to improve efficiency, effectiveness, and accountability by putting forward proposals to reorganize HHS. These include: improving the management of the Strategic National Stockpile; streamlining the administrative functions at the National Institutes of Health (NIH); and improving efficiency through examining the effectiveness of the U.S. Public Health Service Commissioned Corps. The Budget also integrates the research of three programs—the Agency for Healthcare Research and Quality, the National Institute for Occupational Safety and Health, and the National Institute on Disability, Independent Living, and Rehabilitation—within NIH to improve coordination and outcomes. Initially, these activities would be established as separate Institutes, but NIH will assess the feasibility of integrating these research activities more fully into existing NIH Institutes and Centers over time.

**Combats the Opioid Epidemic.** The Budget significantly strengthens efforts to combat the opioid epidemic by including \$5 billion in new resources over the next five years. Approximately 64,000 people died in 2016 as the result of drug overdoses, the largest increase in drug deaths ever recorded in a single year in the United States. Deaths from drug overdoses have almost doubled in the last 10 years, and drug overdose is the leading cause of unintentional injury deaths for Americans under the age of 50. A major driver of this crisis is opioids, a class of drugs that includes both legal and illicit drugs such as certain prescription painkillers, heroin, and synthetic opioids such as fentanyl.

The Budget builds upon the Administration's continued efforts—in 2017, the Administration declared a nationwide public health emergency and provided nearly \$500 million to States to prevent and treat opioid abuse and addiction; in addition, the 2018 Budget requested another \$500 million. The Budget requests \$1 billion in new resources for 2019 and a total of \$5 billion over the next five years to combat the opioid epidemic by preventing abuse and helping those who are addicted get access to overdose reversal drugs, treatment, and recovery support services.

The Administration will increase awareness of the dangers of opioids through a national media campaign, encourage safer prescribing practices to reduce unnecessary prescriptions, and help States improve their Prescription Drug Monitoring Programs. The Administration will continue its work to develop innovative technologies to replace the use of opioids in pain management and to prevent addiction to opioids. In addition, the Administration supports more rigorous research to better understand how existing programs or policies might be contributing to or mitigating the opioid epidemic.

For Medicaid, the Budget proposes expanding coverage of comprehensive and evidence-based Medication Assisted Treatment options, previews forthcoming guidance from the Centers for Medicare & Medicaid Services (CMS) that would set minimum standards for State Drug Utilization Reviews to reduce clinical abuse, and requires States to track and act on high prescribers and utilizers of prescription drugs.

**Where to find help for addiction to  
opioids and other substances**

The Substance Abuse and Mental Health Service Administration's National Helpline, 1-800-662-HELP (4357) provides a free, 24-hour-a-day, 365-day-a-year, information (in English and Spanish) for individuals and family members facing mental illness and/or substance abuse issues. This confidential service provides referrals to local treatment facilities, support groups, and community-based organizations. Callers can also order free publications and other information. Callers are not asked for any personal information other than their zip code or other geographic information in order to accurately identify the local resources appropriate to the caller's needs. Referral information can also be searched online at <https://findtreatment.samhsa.gov/>.

For Medicare, the Budget proposes to test and expand nationwide a bundled payment for community-based medication assisted treatment, including, for the first time, comprehensive Medicare reimbursement for methadone treatment. The Budget also proposes to prevent prescription drug abuse in Medicare Part D and protect beneficiaries from potentially harmful drugs by requiring plan participation in a program to prevent prescription drug abuse, which would promote sound public health policy and help keep premiums down for seniors.

In addition, the Budget proposes to authorize the Secretary to work with the Drug Enforcement Administration to revoke a provider's certificate (which allows a provider to prescribe controlled substances) when that provider is barred from billing Medicare based on a pattern of abusive prescribing.

**Reforms Drug Pricing and Payment.** The goal of the Administration's comprehensive strategy is to address the problem of high drug prices, provide greater access to lifesaving medical products, and ensure that the United States remains the leader in biomedical innovation. The Budget proposes new strategies to address high drug prices, increase access to lifesaving medicines, rationalize the current payment incentive structure in Medicare Part D and Part B, and foster greater competition among generic pharmaceutical firms.

- **Tests Innovative Medicaid Drug Coverage and Financing Reforms**—the Budget calls for new Medicaid demonstration authority for up to five States to test drug coverage and financing reforms that build on private sector best practices. Participating States would determine their own drug formularies, coupled with an appeals process to protect beneficiary access to non-covered drugs based on medical need, and negotiate drug prices directly with manufacturers. HHS and participating States would rigorously evaluate these demonstrations, which would provide States with new tools to control drug costs and tailor drug coverage decisions to State needs.
- **Speeds Development of More Affordable Generics**—the Budget proposes to give the Food and Drug Administration (FDA) greater ability to bring generics to market faster by incentivizing more competition among generic manufacturers. This would lead to greater access for consumers to safe, high-quality, and affordable generic drugs and would improve health and quality of life through FDA's advances in shaping medical practices. The proposal ensures that first-to-file generic applicants who have been awarded a 180-day exclusivity period do not unreasonably and indefinitely block subsequent generics from entering the market beyond the exclusivity period. Under this proposal, when a first-to-file generic application is not yet approved due to deficiencies, FDA would be able to tentatively approve a subsequent generic application, which would start the 180-day exclusivity clock, rather than waiting an indefinite period for the first-to-file applicant to fix the deficiencies in its application. Triggering the start of the 180 day-exclusivity period for first-to-file applicants who "park" their exclusivity would speed delivery of generic drugs and provide substantial cost savings to American consumers.
- **Modernizes the Medicare Part D Drug Benefit and Modifies the Part B Drug Payment**—the Budget addresses the misaligned incentives of the Part D drug benefit structure and better equips plans with the tools necessary to manage spending. Proposed changes are designed to: lower beneficiary costs at the pharmacy counter by requiring plans to share at the point of sale a portion of rebates that plans receive from drug manufacturers; enhance Part D plans' negotiation power with manufacturers by allowing for additional flexibilities in formulary management; encourage utilization of higher value drugs by eliminating cost-sharing for generic drugs for beneficiaries who receive the low-income subsidy; modify the Part D payment structure to discourage drug manufacturers' price and rebate strategies that increase spending for both beneficiaries and the Government; and provide beneficiaries with more predictable

annual drug expenses through the creation of a new out-of-pocket spending cap. In addition, the Budget modifies payment for Part B drugs to discourage manufacturers from increasing prices faster than inflation and improve payment accuracy. The Budget also modifies hospitals' payment for drugs acquired through the 340B drug discount program by rewarding hospitals that provide charity care and reducing payments to hospitals that provide little to no charity care.

**Repeals & Replaces Obamacare and Reforms Medicaid Financing.** Obamacare, which substantially shifted regulatory power from the States to the Federal Government in order to standardize coverage, has wreaked havoc on the individual insurance market. Average premiums increased 105 percent from 2013 to 2017 while choices have dwindled. In 2017, people in one-third of U.S. counties only had a single insurer from which to purchase a plan on an exchange. For 2018, approximately 30 percent of enrollees only had choices from a single insurer.

*"We will deliver relief to American workers, families, and small businesses, who right now are being crushed by Obamacare, by increasing freedom, choice, and opportunity for the American people."*

President Donald J. Trump  
March 10, 2017

While many people with expensive medical conditions and those with income sufficiently low enough—below 200 percent of the Federal poverty level—to receive large subsidies have obtained coverage, the exchanges have failed to attract healthier individuals and families with somewhat higher incomes that want affordable options that meet their needs. In addition, the Patient Protection and Affordable Care Act's (PPACA) Medicaid expansion has cost significantly more than expected. For example, in 2015, CMS actuaries increased their estimates of Federal spending for the average Medicaid expansion enrollee in that year by almost 50 percent. Overall, the cost per newly insured individual is far more than what was expected.

The Budget supports a two-part approach to repealing and replacing Obamacare, starting with enactment of legislation modeled closely after the Graham-Cassidy-Heller-Johnson (GCHJ) bill as soon as possible, followed by enactment of additional reforms to help set Government healthcare spending on a sustainable fiscal path that leads to higher value spending. The President is committed to rescuing States, consumers, and taxpayers from the failures of Obamacare, and supporting States as they transition to more sustainable healthcare programs that provide appropriate choices for their citizens. The Budget also provides a path for States and consumers to be relieved from many of the PPACA's insurance rules and pricing restrictions that have resulted in one-size-fits-all plans with soaring premiums and deductibles. This would allow people to buy insurance plans that work for them and that are fairly priced, a substantial benefit to middle class families who do not receive coverage through the workplace.

The Market-Based Health Care Grant Program would provide more equitable and sustainable funding to States to develop affordable healthcare options. The block grant program would promote structural reforms to improve the functioning of the healthcare market through greater choice and competition, with States and consumers in charge rather than the Washington bureaucracy. The Budget would allow States to use the block grant for a variety of approaches in order to help their citizens, including those with high cost medical needs, afford quality healthcare services. The block grant approach also reflects the Administration's view that Government subsidies are better targeted to States and consumers rather than funneled through insurance companies as with the PPACA.

The President is also committed to the comprehensive Medicaid reform in the GCHJ bill, including the repeal of the Obamacare Medicaid expansion and reducing State gimmicks, such as provider taxes, that raise Federal costs. Medicaid financing reform would empower States to design individual, State-based solutions that prioritize Medicaid dollars for the most vulnerable and support innovations such as community engagement initiatives for able-bodied adults. National healthcare spending trends are unsustainable in the long term and the Budget includes additional proposals to build upon the GCHJ bill to make the system more efficient, including proposals to align the Market-Based Health Care Grant Program, Medicaid per capita cap, and block grant growth rates with the Consumer Price Index (CPI-U) and to allow States to share in program savings.

This two-part approach in the Budget ensures that States have the financial support they need to transition away from Obamacare, while allowing greater choice and competition in healthcare markets and more sustainable Government health spending over the long term.

**Provides States with Flexibility to Modernize Medicaid.** In addition to the program flexibilities included in the Budget proposal to repeal and replace Obamacare, and building on the recent Administration guidance allowing States to explore community engagement requirements for able-bodied adults in Medicaid, the Budget proposes to empower States to further modernize Medicaid benefits and eligibility. The Budget would give States additional flexibility around benefits and cost-sharing, allow States to consider savings and other assets when determining Medicaid eligibility, and reduce waste by counting lottery winnings as income for Medicaid eligibility. These proposals enable the Federal and State governments to be partners in greater fiscal responsibility which would preserve and protect the Medicaid program for Americans who truly need it.

**Improves Program Integrity for Medicare, Medicaid, and the Children's Health Insurance Program (CHIP).** The Budget includes legislative proposals and administrative actions to strengthen the integrity and sustainability of Medicare, Medicaid, and CHIP. Combined with additional funding investments, these policies would provide CMS with additional resources and tools to combat fraud, waste, and abuse and to promote high-quality and efficient healthcare.

To improve fiscal integrity and transparency in Medicaid payment policy, CMS will propose guidance to improve timely and complete data collection on Medicaid supplemental payments, including the financing of such payments. In addition, current law allows States to make Medicaid provider payments far in excess of actual service costs. States have used this additional money to leverage Federal reimbursements in excess of their Medicaid matching rate or for other purposes. To avoid this misuse of funds, the Budget also proposes to limit reimbursement to Government providers to no more than the cost of providing services to Medicaid beneficiaries.

**Health Care Fraud and Abuse Control:  
\$5 returned for every \$1 spent**

Additional funding for the Health Care Fraud and Abuse Control (HCFAC) program has allowed CMS in recent years to shift away from a "pay-and-chase" model toward identifying and preventing fraudulent or improper payments from being paid in the first place. The return on investment for the HCFAC account was \$5 returned for every \$1 expended from 2014-2016. The Budget proposes HCFAC discretionary funding of \$770 million in 2019, which is \$45 million higher than the 2017 enacted level.

**Strengthens and Protects the Medicare Program.** Consistent with the President's commitment to protect Medicare, the Budget proposes to improve program efficiency, enhance program integrity, and bolster program solvency to ensure the sustainability of the Medicare program for current and future generations. To accomplish this, the Budget works to restructure and bring transparency and accountability to payments that do not directly relate to Medicare's health insurance role,

by financing them outside the Hospital Insurance trust fund and modifying their growth rate. The Budget ensures payments accurately align with the costs of care to address perverse payment incentives identified by non-partisan experts that drive overutilization or clinically inappropriate use of more expensive sites of care. This would improve the quality of care seniors receive and better protect them from excessive out-of-pocket costs. The Budget also supports the Administration's commitment to reduce provider burden by providing hospitals and physicians freedom to use electronic health records as they deem best by removing ineffective Federal penalties and requirements, eliminating reporting burden and low-value metrics in performance-based payment for physicians, improving incentives for physicians to participate in advanced payment models that reward high-value health-care delivery, and providing CMS with greater flexibility in beneficiary education and quality assurance. The Budget creates a new option for Medicare beneficiaries to save for out of pocket healthcare expenses by allowing tax deductible contributions to health savings accounts associated with high deductible health plans offered by employers or Medicare Advantage. The Budget would extend Medicare's solvency by roughly eight years.

**Serves Older Americans.** The Budget prioritizes funding for programs that address the needs of older Americans, many of whom require some level of assistance to continue living independently or semi-independently within their communities. This funding provides critical help and support to seniors and caregivers. These programs provide direct services such as respite care, transportation assistance, and personal care services. These services also include \$838 million for senior nutrition programs. This funding is estimated to provide 222 million meals to 2.4 million older Americans nationwide.

**Improves Treatment for Serious Mental Illness.** The Budget requests new investments to improve treatment for individuals suffering from serious mental illness. Approximately 35 percent of the more than 10 million adults in the United States that suffer from serious mental illness did not receive mental health services in the past year. The Budget requests new investments to ensure more adults with serious mental illness receive Assertive Community Treatment, an evidence-based practice that provides a comprehensive array of services to reduce costly hospitalizations. The Budget also increases funding to improve mental health services for seriously mental ill individuals who are involved with the criminal justice system. The Budget maintains funding for the Community Mental Health Services Block Grant, which requires States to support services for first episode psychosis, which is vitally important to ensuring that individuals with serious mental illness receive appropriate treatment in a timely manner.

**Enhances Emergency Preparedness and Health Security.** The Budget proposes to transfer the Strategic National Stockpile to the HHS' Assistant Secretary for Preparedness and Response from the Centers for Disease Control and Prevention (CDC). This move consolidates strategic decision-making around the development and procurement of medical countermeasures, and streamlines leadership to enable nimble responses to public health emergencies. The Budget also prioritizes funding for the Biomedical Advanced Research and Development Authority, BioShield, and pandemic influenza, to continue to build on investments to protect the civilian population in the event of public health emergencies related to infectious disease outbreaks, and other man-made crises. A disease threat anywhere is a disease threat everywhere, so the United States will continue to support capacity building in other countries so that they can stop outbreaks at their source before they reach the U.S. homeland. Through CDC, the Budget proposes new investments via the Global Health Security Agenda to strengthen countries' abilities to respond to infectious disease outbreaks whether naturally occurring, accidental, or deliberate.

**Accelerates Progress on Infectious Disease Elimination.** Progress on fighting infectious diseases such as HIV/AIDS, viral hepatitis, sexually transmitted disease, and tuberculosis continues,



but much work remains—approximately 40,000 Americans are newly infected with HIV each year and there were more than two million cases of chlamydia, gonorrhea, and syphilis reported in the United States in 2016—the highest number ever recorded. The Budget requests \$40 million for a new demonstration initiative within CDC focused on jointly eliminating multiple infectious diseases using intensive prevention, screening, and treatment/referral as treatment efforts. This initiative would focus on at least five States/jurisdictions, particularly those that are seeing a rise in infectious diseases related to opioid abuse. The Budget also includes a focus on accelerating the elimination of perinatal HIV transmission in the United States.

**Reauthorizes the Ryan White HIV/AIDS Program.** The Ryan White HIV/AIDS Program provides a comprehensive system of primary medical care, treatment, and supportive services to over half a million people living with HIV, which is more than half of the people in the United States who have been diagnosed with HIV. The Budget supports reauthorizing the Ryan White program to ensure Federal funds are allocated to address the changing landscape of HIV across the United States. Reauthorization of the Ryan White Program should include data-driven programmatic changes as well as simplifying and standardizing certain requirements and definitions. These changes would ensure Federal funds may be allocated to populations experiencing high or increasing levels of HIV infections/diagnoses while continuing to support Americans already living with HIV across the Nation.

**Addresses Overlapping and Burdensome Food Regulation.** FDA will continue to work with the U.S. Department of Agriculture to streamline regulatory and inspection activities to ease burden on the industry by reducing the number of businesses that are inspected by both agencies. FDA will also support development of a State-based safety infrastructure by evaluating whether States will have an increased role in conducting inspections on larger farms on behalf of FDA and continuing outreach and education to small farms as they prepare for their upcoming compliance dates.

**Reforms Federal Investments in the Healthcare Workforce.** The Budget proposes to improve the effectiveness of Federal investments in the healthcare workforce to better address provider shortages. To better target Federal spending on graduate medical education (GME) and increase transparency and accountability, the Budget consolidates GME spending in Medicare, Medicaid, and the Children's Hospital GME Payment Program into a new mandatory GME capped grant program. Funding would be distributed to hospitals that are committed to building a strong medical workforce and would be targeted to address medically underserved communities and health professional shortages. The Budget also proposes to eliminate \$451 million in other health professions and training programs, which lack evidence that they significantly improve the Nation's health workforce. The Budget continues to fund high value health workforce activities, such as the National Health Service Corps, that provide scholarships and loan repayment in exchange for service in areas of the United States where there is a shortage of health professionals.

**Modernizes How the Government Employs Public Health Professionals.** The U.S. Public Health Service Commissioned Corps (Corps) consists of over 6,500 uniformed public health professionals who work alongside their equivalent civilian counterparts performing the same day jobs but often receiving higher total compensation. The Corps receives military-like benefits, but has not been incorporated into the Armed Forces since 1952 and generally does not meet the Department of Defense's criteria for the military compensation system. Further, the Corps' mission assignments and functions have not evolved in step with the public health needs of the Nation. It is time for that to change. HHS is committed to providing the best public health services and emergency response at the lowest cost, and is undertaking a comprehensive look at how the Corps is structured. The specific recommendations and plans resulting from this analysis will be released in the months ahead and could range from phasing out unnecessary Corps functions to reinventing the Corps into a smaller, more targeted cadre focused on providing the most vital public health services and emergency response.

The goal of this proposal is to modernize how the Government employs public health professionals and how HHS responds to public health emergencies, saving Federal funds, and reducing duplication while safeguarding the well-being of the Nation.

**Prioritizes Direct Health Services for American Indians and Alaska Natives.** The Budget increases access to direct health services for American Indians and Alaska Natives by funding the staffing and operations of newly constructed facilities, extending services to three newly recognized Tribes, and increasing resources available for accreditation emergencies to address ongoing health-care delivery challenges in the Great Plains area.

**Prohibits Certain Abortion Providers from Receiving Federal Funds.** The Budget includes provisions prohibiting certain abortion providers from receiving Federal funds from HHS, including those that receive funding under the Title X Family Planning program and Medicaid, among other HHS programs.

**Supports Children and Families in Achieving Their Potential.** The Budget continues to invest in programs that help American families and children thrive. The Budget supports States in providing key services to children and youth by increasing State flexibilities and reducing administrative burdens in foster care. These child welfare reforms focus on preventing the need for foster care unless absolutely necessary to ensure families can remain intact. The Budget also helps working families afford and access child care by maintaining Federal funding for key HHS child care programs and using these investments to leverage additional State support for child care. In addition, the Budget promotes evidence-building and innovation to strengthen America's safety net, proposes improvements to the Temporary Assistance for Needy Families program, and supports efforts to get noncustodial parents to work. Together, these proposals reflect the Administration's commitment to helping low-income families end dependency on Government benefits and promote the principle that gainful employment is the best pathway to financial self-sufficiency and family well-being.

**Rightsizes the Proper Role of the Federal Government.** The Budget continues the 2018 Budget proposals to eliminate low-performing or ineffective programs, such as the Low Income Home Energy Assistance Program (LIHEAP) and the Community Services Block Grant (CSBG). Many States and utility companies currently provide energy assistance services, reducing the need for a distinct Federal program to fulfill this role. Further, LIHEAP is unable to demonstrate strong performance outcomes, and the Government Accountability Office has raised concerns about fraud and abuse in the program in the past. CSBG also has difficulty in demonstrating effective outcomes. In addition, eligible entities that receive funding from CSBG receive funding from many other sources, including other Federal sources. CSBG accounts for just five percent, on average, of total funding that these eligible entities receive, and these funds are distributed by a formula that is not directly tied to performance and outcomes.



## DEPARTMENT OF HOMELAND SECURITY

### Highlights:

- The mission of the Department of Homeland Security (DHS) is to secure the Nation from the many threats it faces. DHS safeguards the American people, the homeland, and America's values by: preventing terrorism and enhancing security; managing the borders; administering immigration laws; securing cyberspace; and ensuring disaster resilience.
- The Budget requests \$46 billion in discretionary appropriations for DHS, a \$3.4 billion or 8-percent increase from the 2017 enacted level (excluding updated 2017 receipts). In addition, \$6.7 billion is available to help communities overwhelmed by major disasters.
- Critical investments include \$1.6 billion for construction of the border wall and \$782 million to hire and support 2,750 additional law enforcement officers and agents at U.S. Customs and Border Protection (CBP) and U.S. Immigration and Customs Enforcement (ICE). The Budget also requests \$2.5 billion for detaining up to 47,000 illegal aliens on a daily basis.
- The Budget ensures the appropriate use of taxpayer dollars by reducing Federal programs that support activities that are primarily the responsibility of State and local governments.

### The President's 2019 Budget:

In the years since the 9/11 terrorist attacks, the Nation has faced numerous ongoing and emerging threats. U.S. adversaries continue to devise new ways to attack and undermine the American way of life. DHS is continuously vigilant in its efforts to protect the Nation, strengthen communities' preparedness and resilience, and respond to and recover from emergencies that occur. The Budget increases funding for border security, immigration enforcement, cybersecurity, and law enforcement capabilities. The Budget fully funds DHS's critical operations to provide the American people the security they expect and deserve.

**Secures the Borders of the United States.** Each day, DHS works to protect the American people and economy by preventing the illegal movement of people and contraband across U.S. borders, including the materials that could be used to produce weapons of mass destruction. CBP and the U.S. Coast Guard (USCG) patrol more than 5,000 miles of border with Canada, 1,900 miles of border with Mexico, and 95,000 miles of shoreline to intercept threats originating beyond the Nation's borders. The Budget invests in border security to protect the American people, while facilitating

*"I could not be prouder to serve alongside the men and women of the Department of Homeland Security. And we, as a Nation, owe them a debt of gratitude for taking on some of the toughest, most important jobs in America. While you're having your morning coffee, the Coast Guard is pulling a fisherman aboard after his boat capsized in stormy seas. While you're deciding what you want for lunch, the Federal Law Enforcement Training Center is teaching law enforcement officers how to respond to an active shooter... While you're zoning out on your commute home, Homeland Security Investigators are closing in on a dangerous child predator. While you're binge-watching Mad Men on Netflix, TSA is stopping an actual mad man with a loaded gun from boarding a flight to Disney World."*

John F. Kelly  
White House Chief of Staff, as DHS Secretary  
April 18, 2017

legitimate trade and travel to advance American prosperity.

As shown in the chart below, since the start of the Administration in 2017, apprehensions of illegal border crossers have dropped between ports of entry. At the same time, DHS has accelerated its apprehension of illegal aliens within the United States.

The Budget follows through on the President's commitments on border security. As part of the Administration's proposal for \$18 billion to fund the border wall, the Budget requests \$1.6 billion to construct approximately 65 miles of border wall in south Texas. The Budget also provides funding to hire 2,000 additional ICE law enforcement officers and 750 Border Patrol agents. The Budget makes these significant investments while continuing to fund surveillance and other border security technologies and initiatives.

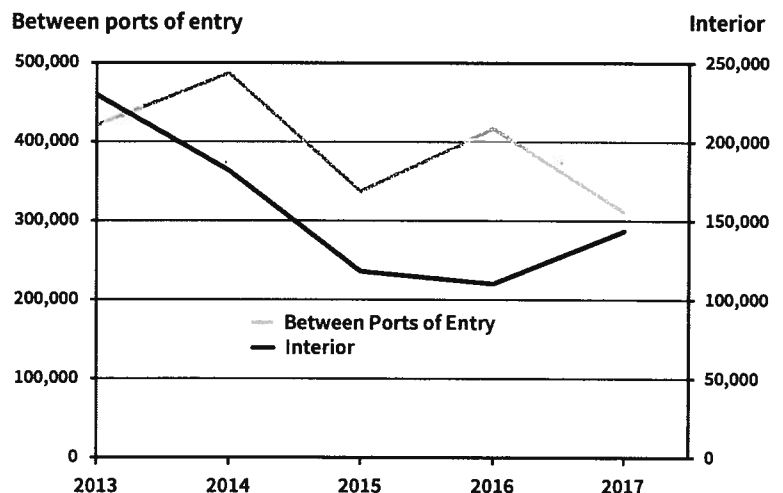
The Budget also continues to modernize USCG's vessels and aircraft that patrol the waters off the Nation's coasts. These vessels and aircraft serve as America's first line of defense at sea. USCG works every day to stop illegal aliens traveling by maritime routes, and disrupts the flow of cocaine and

other illegal drugs well before they can poison communities. New assets deployed by USCG, such as the National Security Cutter, are also much more effective at detecting threats and stopping them before they reach American shores.

**Ensures the Immigration System Works.** The Budget invests in critical law enforcement programs that would ensure the immigration system works, including hiring 2,000 new ICE law enforcement officers in 2019. This doubles the number of new ICE officers who would be hired in 2018. These new law enforcement personnel would help fulfill the President's commitment to apprehend and deport illegal aliens, dismantle smuggling networks, and enhance public safety.

In addition, in order to combat immigration fraud, the Budget proposes a new approach to fund ICE investigators by collecting \$208 million in fees from immigration

**Fewer Illegal Border Apprehensions and Increased Interior Apprehensions**



Source: Department of Homeland Security, 2017

applicants. These funds would ensure ICE has what it needs to disrupt criminal enterprises conducting document and benefit fraud, while also stopping unscrupulous employers that hire illegal aliens and undermine job opportunities for Americans.

Companies that employ illegal aliens violate the law, harm U.S. workers, and fuel other crimes such as human smuggling, document fraud, identity theft, money laundering, and labor violations. In order to crack down on illegal employers, the Budget continues to call for mandatory, nationwide use of the E-Verify system. E-Verify is an online tool that allows businesses to determine the eligibility of their employees to work in the United States, can be used at no cost to employers, and has an over 99-percent accuracy rate.<sup>1</sup> The Administration continues to enforce E-Verify use by Federal contractors, which has been required for many years.

**Secures Cyberspace.** The President has affirmed the important role that DHS plays in combating cyberattacks and protecting the Nation's critical infrastructure. The Budget includes \$1.0 billion to support DHS's efforts to safeguard the Federal Government's civilian information technology systems against cybersecurity threats. These funds also support DHS efforts to share cybersecurity information with State, local, and tribal governments, as well as with international partners and the private sector. As these threats continue to evolve, DHS cybersecurity programs are more important than ever.

**Secures the Nation's Transportation Systems.** The Transportation Security Administration (TSA) ensures the security of the Nation's various transportation systems. In addition to screening more than two million passengers and millions more bags daily, TSA supports security of air cargo, mass transit systems, passenger and freight railways, pipelines, highways, and ports. In 2016, TSA discovered 3,391 firearms in carry-on bags at checkpoints across the United States, averaging more than nine firearms per day. Of those, 83 percent were loaded. The Budget provides approximately \$7.7 billion to support the TSA employees and technology that ensure the free movement of people and commerce.

**Protects against Emerging Threats.** Within TSA, the Budget invests \$71 million in new technology to make airport screening more effective and faster. Computed tomography, used for years in hospital and industrial applications, is being adapted for aviation checkpoints to address emerging threats to passenger flights. The technology provides high-definition 3D images that screeners can zoom and rotate to identify and remove suspicious items before they get onto an airplane.

The Budget also enhances DHS's ability to counter the threat to the homeland from weapons of mass destruction including efforts overseas and domestically. The Budget supports DHS's plans to establish a new Countering Weapons of Mass Destruction Office, which would unify the Department's various chemical, biological, radiological, and nuclear counter-threat missions. This reorganization would allow the Department to protect the United States from weapons of mass destruction more efficiently and effectively.

**National Flood Insurance Program's  
Reinsurance Purchase Pays Off During  
Hurricane Harvey**

In January 2017, FEMA purchased reinsurance coverage for the National Flood Insurance Program, which would provide up to \$1 billion in payment to FEMA if flood insurance claims from a single event exceeding \$4 billion. The reinsurance coverage paid off when Hurricane Harvey hit the coast of Texas in August of 2017. This investment gave FEMA nearly \$7 for every \$1 of reinsurance coverage purchased, keeping the program from falling further into debt and protecting taxpayer funds. FEMA plans to continue purchasing reinsurance as a way to protect against losses resulting from catastrophic disasters.

<sup>1</sup> <https://www.uscis.gov/e-verify/about-program/performance>

*“State, local, tribal, and territorial governments, along with the residents in the impacted areas, are the true first responders.”*

Brock Long  
 FEMA Administrator  
 October 31, 2017

**Strengthens State and Local Investments in National Preparedness.** The Budget requests \$1.9 billion for the Federal Emergency Management Agency (FEMA) for its programs that award grants to State and local governments. These funds help equip emergency responders so they can be prepared for natural or manmade disasters. Responding to and recovering from any disaster is a whole community effort that relies on the strength of Federal agencies such as FEMA, State, local, and tribal governments, and non-governmental entities and individuals. The Budget also supports efforts by communities to invest their own resources by establishing a non-Federal cost share

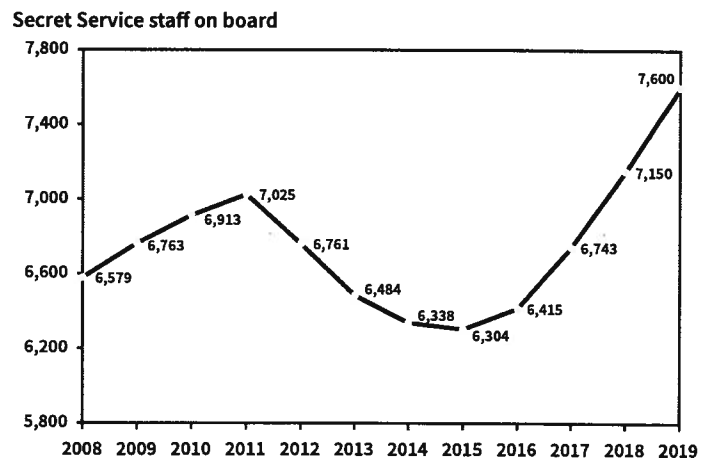
for certain FEMA grant programs, and proposing to eliminate the National Domestic Preparedness Consortium.

**Assists Communities when Disaster Strikes.** The Budget proposes \$6.9 billion for the FEMA Disaster Relief Fund to ensure effective response to and recovery from emergencies and major disasters. This funding helps survivors get back on their feet while restoring essential community services and facilities. Within these amounts, the Budget provides \$24 million to the DHS Office of the Inspector General to exercise robust oversight of disaster-related spending, ensuring accountability for taxpayer dollars.

Catastrophic storms in the fall of 2017 demonstrated the importance of flood insurance in helping individuals quickly recover. However, flood claims for damages from the storms drove the National Flood Insurance Program (NFIP) deeper into debt. The Administration recognizes that flood insurance rates must increase so that policyholders’ premiums reflect the risk of living in flood zones. The Administration has proposed various reforms to the Congress that would ensure the continued financial stability of the NFIP while maintaining affordability for low-income policyholders, and expand the private market to get the Federal Government out of the flood insurance business.

**Protects the Nation’s Leaders by Strengthening the Secret Service.** The Budget provides \$2.2 billion for the U.S. Secret Service, fully supporting the Agency’s dual missions of protecting the Nation’s leaders while securing America’s financial systems. The Budget proposes hiring an additional 450 special agents, officers, and professional staff at the Secret Service. This would keep the Agency on a path to reach its staffing goal of 7,600 employees by the end of 2019, the highest level ever (see chart). This increase fulfills key recommendations from independent reviews of Secret Service operations, continuing the Administration’s progress toward improving the morale of this critical law enforcement agency.

**Strengthening Protection of U.S. Leaders**



Source: Office of Personnel Management (FedScope), 2017.

**Improves the Efficiency of the Federal Government.** The Budget proposes transferring operational responsibility for the National Bio and Agro-Defense Facility (NBAF) from the DHS Science and Technology Directorate to the United States Department of Agriculture (USDA). Given that USDA is already responsible for the research programs that would be at this facility once construction is completed, it makes sense for USDA to manage the facility itself. DHS would oversee construction through completion and support USDA transition. Shifting NBAF operations to USDA would allow the Science and Technology Directorate to focus on its primary research and development mission.



## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### Highlights:

- The Department of Housing and Urban Development (HUD) promotes decent, safe, and affordable housing for Americans and provides access to homeownership opportunities.
- The Budget reflects the President's commitment to fiscal responsibility by reforming programs to encourage the dignity of work and self-sufficiency while supporting critical functions that provide assistance to vulnerable households. The Budget recognizes a greater role for State and local governments and the private sector to address community and economic development needs and affordable housing production.
- The Budget requests \$39.2 billion in gross discretionary funding for HUD, an \$8.8 billion or 18.3-percent decrease from the 2017 enacted level.

### The President's 2019 Budget:

HUD promotes affordable housing for low-income families and supports access to homeownership. A secure, healthy housing situation is a foundation on which families can establish economic security, improve their quality of life, and form strong communities. In a fiscally constrained environment, the Budget strategically invests \$39.2 billion in programs to support HUD's core functions, and ensures HUD programs remain a vital resource to the most vulnerable households and first-time homeowners. The Budget provides \$33.8 billion for HUD's rental assistance programs and requests legislative reforms to place these programs on a more fiscally sound path while encouraging work and self-sufficiency for tenants. The Budget also continues to support efforts across the United States to reduce homelessness and remove lead and other hazards from over 9,500 homes. For first-time and low- to moderate-income homebuyers, HUD's Federal Housing Administration (FHA) remains a critical source of mortgage financing.

The Budget also eliminates programs that are duplicative or have failed to demonstrate effectiveness, such as the Community Development Block Grant (CDBG) program, and devolves responsibility for community and economic development to State and local governments that are better equipped to respond to local conditions.

**Reforms Rental Assistance.** The Budget requests \$33.8 billion across HUD's rental assistance programs, a decrease of 11.2 percent relative to the 2017 enacted level. To address the increasing and unsustainable Federal costs of rental assistance, the Budget requests legislative reforms that



would produce significant cost savings. In addition to these reforms, the Budget proposes program-specific savings in the Housing Voucher and Public Housing programs. The Budget does not request funding for the Public Housing Capital Fund, as the provision of affordable housing should be a responsibility more fully shared with State and local governments. These funding levels, while significantly reduced from the 2017 enacted level, should support currently assisted households while strategically decreasing the Federal footprint of HUD's rental assistance programs over time.

**Encourages Work Among HUD-Assisted Households.** The Budget proposes legislative reforms to encourage work and self-sufficiency across its core rental assistance programs, consistent with broader Administration goals. Currently, tenants generally pay 30 percent of their adjusted income toward rent. The Administration's reforms require able-bodied individuals to shoulder more of their housing costs and provide an incentive to increase their earnings, while mitigating rent increases for the elderly and people with disabilities. The Administration's legislative proposal would also reduce administrative and regulatory burdens and allow communities further flexibility to develop tenant rent requirements that are consistent with local needs and objectives.

**Leverages Private Capital for Housing Improvements.** The Budget provides investments and statutory authorities to facilitate a shift from the Public Housing funding platform to Housing Vouchers and Project-Based Rental Assistance (PBRA). The Voucher and PBRA programs benefit from greater private sector involvement and are able to leverage private financing to modernize their units, generally resulting in higher quality housing for assisted low-income families. To further this objective, the Budget requests \$100 million for the Rental Assistance Demonstration, which supports the redevelopment of Public Housing units through conversion to the Housing Voucher and PBRA funding platforms. Additional authorities in the Public Housing program, such as tenant protection vouchers and the strategic release of certain public housing assets, would also assist in this effort.

**Establishes EnVision Centers for a Holistic Approach to Self-Sufficiency.** On December 7, 2017, Secretary Ben Carson announced the launch of EnVision Centers to help HUD-assisted households achieve self-sufficiency and deliver on the President's commitment to a better future. Detroit, Michigan is home to the first of 10 sites that will be part of this demonstration. EnVision Centers will provide communities with a centralized hub for HUD's four pillars of self-sufficiency: 1) Economic Empowerment; 2) Educational Advancement; 3) Health and Wellness; and 4) Character and Leadership. Through partnerships with non-profits, corporations, and State and local governments, these EnVision Centers would leverage private and public resources for maximum community impact. The Budget requests funding to evaluate these EnVision Centers, and adjust the program design and improve implementation if needed to achieve better outcomes for individuals and communities.

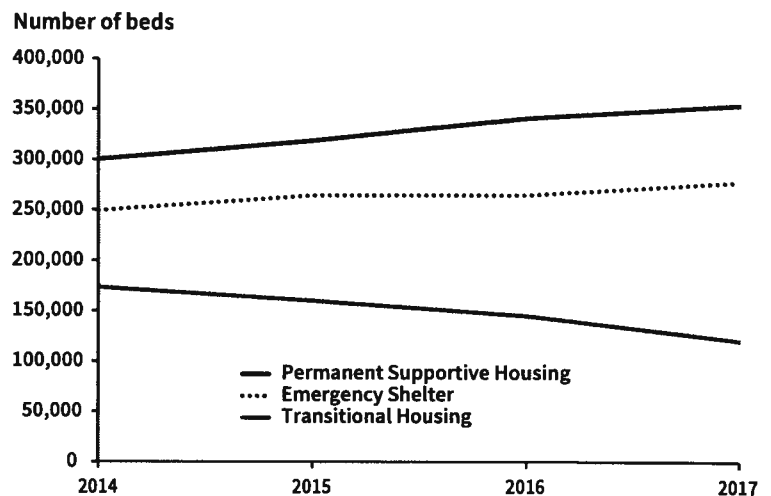
*"We need to think differently about how we can empower Americans to climb the ladder of success. EnVision Centers are designed to help people take the first few steps towards self-sufficiency."*

Ben Carson  
Secretary  
December 7, 2017

**Promotes Economic Mobility and Improves Quality of Life.** The Budget requests \$75 million for the Family Self-Sufficiency program and \$10 million for the Jobs-Plus Initiative. By connecting HUD-assisted households to social services and employment resources, these programs help tenants maximize their earning potential and improve their financial situations and quality of life. Rigorous evaluations have shown that the Jobs-Plus program produces lasting increases in the wage earnings of tenants.

**Continues Supporting Communities in their Efforts to Reduce Homelessness.** The Budget requests \$2.4 billion for the Homeless Assistance Grants (HAG) program, equal to the 2017 enacted level. HAG primarily funds the Continuum of Care program, which is designed to be a coordinated community-based network of programs to prevent and address local homelessness. HUD uses its annual grant competition to encourage grantees to allocate funds to evidence-based and cost-effective strategies. These policies have encouraged communities to increasingly support evidence-based interventions such as permanent supportive housing rather than models such as transitional housing that have been proven less effective. The Budget also requests \$255 million for Emergency Solutions Grants, which would enable municipalities to support emergency shelter, rapid re-housing, and homelessness prevention.

**Beds Available for Homeless and Formerly Homeless People**



Source: HUD's 2017 Annual Homeless Assessment Report to the Congress, December 2017.

**Reduces Lead Exposure for Low-Income Children.** Lead paint in housing presents a significant threat to the health, safety, and future productivity of America's next generation. The Budget continues to make progress to promote healthy and lead-safe homes by requesting \$145 million, equal to the 2017 enacted level, for the mitigation of lead-based paint and other hazards in low-income homes, especially those in which children reside. This funding level also includes resources for enforcement, education, and research activities to further support this goal. Research suggests that this program generates high returns on investment due to higher wages and reduced medical costs.

**Supports Sustainable Homeownership Opportunities and Upgrades FHA Operations.** The Budget preserves access to sustainable homeownership opportunities for creditworthy borrowers through FHA and Ginnie Mae credit guarantees. FHA provides a crucial source of mortgage financing for first-time homebuyers, who accounted for over 80 percent of FHA-insured home purchase loans in 2017. FHA's activities enable these new homeowners to build wealth and establish economic security. The Budget requests an additional \$20 million above the 2017 enacted level of \$130 million for FHA to upgrade its operations by investing in information technology and contract support. This additional funding is fully offset by a modest new fee on FHA lenders, better aligning the responsibilities for the costs and benefits of this program.

**Eliminates Major Block Grants.** Similar to the 2018 Budget, the Administration continues to propose eliminating funding for programs that lack measureable outcomes and are ineffective. The Budget eliminates HUD's community and economic development as well as affordable housing production programs. The Budget eliminates CDBG, a program that has expended more than \$150 billion since its inception in 1974, but has not demonstrated sufficient impact. Studies have shown that the allocation formula, which has not been updated since 1978, is ineffective at targeting funds to the areas of greatest need, and many aspects of the program have become outdated. The Budget also eliminates the HOME Investment Partnerships Program, which has not been authorized since 1994. The Budget devolves responsibility to State and local governments, which are better positioned to assess local community needs and address unique market challenges.



## DEPARTMENT OF THE INTERIOR

### Highlights:

- The Department of the Interior (DOI) conserves and manages natural resources and cultural heritage for the benefit and enjoyment of the American people, provides scientific and evidence-based information about America's natural resources and hazards, supports safe and responsible development of Federal energy resources, and honors the Nation's trust responsibilities and special commitments to American Indians, Alaska Natives, and U.S.-affiliated island communities to help them prosper.
- The Budget request for DOI prioritizes energy development programs, infrastructure improvements on public lands, and DOI-wide reorganization efforts. The Budget eliminates funding for unnecessary or duplicative programs while reducing funds for lower priority activities, including land acquisition and various grant programs.
- The Budget requests \$11.3 billion for DOI, a \$2.2 billion or 16-percent decrease from the 2017 enacted level. This funding level includes changes in mandatory programs.

### The President's 2019 Budget:

DOI's mission affects the lives of all Americans. The Department protects and manages the Nation's natural resources and cultural heritage, manages development of energy and mineral resources on Federal lands and waters, provides scientific and other information about the Nation's natural resources, manages water infrastructure, honors trust responsibilities to American Indians and Alaska Natives, and fulfills commitments to Insular areas. The Budget reflects the Administration's commitment to promoting economic and energy security by developing domestic energy resources. These efforts put the safety and security of America first by reducing U.S. dependency on energy from foreign nations. The Budget also makes investments to improve public lands and water infrastructure, reorganize and reform Departmental operations, streamline administrative functions, improve public access to outdoor recreation, and uphold unique tribal trust responsibilities. At the same time, the Budget reflects the President's commitment to fiscal responsibility by eliminating unnecessary or low priority programs and reducing administrative overhead costs.

**Strengthens America's Energy Security.** The Budget increases funding for DOI programs that support safe and responsible development of energy on public lands and offshore waters. DOI has proposed an aggressive strategy for leasing offshore oil and gas under its Draft Proposed Program for 2019-2024. Onshore, the Administration is taking steps to initiate oil and gas leasing in

*"It's important that the taxpayers and Tribes get the full and fair value of traditional and renewable energy produced on public lands and offshore areas."*

Ryan Zinke  
Secretary  
September 1, 2017

the coastal plain of the Arctic National Wildlife Refuge, which was recently authorized by the Congress. The Department will also continue to make new areas available for renewable energy development—both onshore and offshore—and will prioritize renewable project permitting consistent with industry demand. The Budget also maintains funding for scientific research and data collection to inform responsible energy and mineral development, while minimizing the environmental impacts of these activities. Combined with administrative reforms to streamline permitting processes, these efforts would provide industry with access to the energy

resources America needs, while ensuring that taxpayers receive a fair return from the development of these public resources.

**Supports Historic Effort to Reorganize DOI.** The Budget provides \$18 million to help initiate DOI's internal reform plan, which would move away from the current bureau and State-based regional system of management toward an integrated Federal land and water management approach organized around watersheds. This "one-agency model" approach proposes to improve cross-bureau collaboration, reduce duplication, and move resources closer to land management units. DOI's reform plan breaks silos among bureaus by creating a common regional structure, co-locating regional offices, and improving coordinated decision-making. On the whole, these efforts are expected to facilitate better management of important resources such as watersheds, wildlife corridors, trail systems, infrastructure assets, and recreational systems.

**Launches Public Lands Infrastructure Fund.** Interior manages an infrastructure asset portfolio with a replacement value exceeding \$300 billion, which includes buildings, housing, trails, roads, water systems, and Bureau of Indian Education (BIE) schools. Many of these assets are deteriorating, with older assets becoming more expensive to repair and maintain in good condition. The Budget would establish a new Public Lands Infrastructure Fund to help pay for repairs and improvements in national parks, wildlife refuges, and at BIE schools, which have more than \$12 billion in deferred maintenance. The fund would be derived from 50 percent of incremental energy leasing receipts over 2018 Budget projections that are not otherwise allocated for other purposes. As DOI works to expand Federal energy development on Federal lands and waters, this initiative has the potential to generate up to \$18 billion over 10 years for parks and other public lands infrastructure. This investment would significantly improve the Nation's most visible and visited public facilities that support a multi-billion dollar outdoor recreation economy.

**Invests in Preservation of National Park Service Assets for Future Generations.** For over 100 years, the National Park Service (NPS) has preserved assets in parks and historic sites that represent America's unique history. The Budget provides \$257 million to help address the \$11 billion NPS deferred maintenance backlog. In conjunction with the mandatory funding provided by the Public Lands Infrastructure Fund, these investments would lead to measurable upgrades on NPS's highest priority assets.

**Streamlines Permitting and Reviews.** DOI administers several foundational environmental and historic preservation statutes and manages more than 20 percent of the Nation's lands, making it responsible for the review and permitting of actions affecting those responsibilities. The Budget commits to a better future by reducing inefficiencies in the environmental review and permitting processes, which would allow the American people to enjoy improved infrastructure sooner. For example, the Budget maintains core funding for Fish and Wildlife Service Endangered Species Act

consultations and related activities; these consultations help facilitate the delivery of infrastructure projects while ensuring the protection of imperiled species. The Budget also strengthens the Bureau of Land Management's ability to efficiently facilitate and administer development of energy transmission projects.

**Improves DOI's Procurement of Goods and Services and Management of Administrative Functions.** DOI will realize \$50 million in savings through consolidation and sharing of administrative services, such as acquisitions and human resources, and procurement reforms, including multi-agency "Best in Class" contracts that leverage the Federal Government's buying power to bring more value and efficiency to how taxpayer dollars are used.

**Proposes a Comprehensive Solution to Wildfire Suppression Funding.** The Budget responsibly funds 100 percent of the rolling 10-year average cost for wildfire suppression in the Departments of Agriculture and the Interior within discretionary budget caps. Similar to how unanticipated funding needs for other natural disasters are addressed, the Budget proposes a separate fund that would include an annual cap adjustment appropriation for wildfire suppression operations, in order to ensure that adequate resources are available to fight wildland fires, protect communities, and safeguard human lives during the most severe wildland fire seasons. In addition, the Administration believes that meaningful forest management reforms to strengthen our ability to restore the Nation's forests and improve their resilience to destructive wildfires should be part of any permanent solution.

**Prioritizes Land Management Operations of the National Park Service, Fish and Wildlife Service, and Bureau of Land Management.** The Budget streamlines operations and eliminates waste while providing the necessary resources for DOI to continue to protect and conserve America's public lands and beautiful natural resources, provide access to public lands for the next generation of outdoor enthusiasts, and ensure visitor safety. The Budget provides \$4 billion for land management operations.

**Supports Tribal Sovereignty and Self-Determination across Indian Country.** The Budget addresses Federal trust responsibilities and tribal needs related to education, social services, infrastructure, and stewardship of land, water, and other natural resources. The Budget prioritizes core funding and services that support tribal government operations, such as full funding for contract support costs. The Budget maintains programmatic eliminations proposed in the 2018 Budget, which reduced funding for more recent demonstration projects and initiatives that only serve a few Tribes, and eliminates additional programs that are not fundamental to the missions of the Bureau of Indian Affairs (BIA) or BIE.

**Eliminates Unnecessary, Lower Priority, or Duplicative Programs.** The Budget includes elimination of discretionary Abandoned Mine Land grants that overlap with existing mandatory grants, National Heritage Areas that are more appropriately funded locally, and National Wildlife Refuge fund payments to local governments that are duplicative of other payment programs.

**Reduces Funding for Land Acquisition.** The Budget continues the 2018 Budget proposal to reduce funding for land acquisitions, so that available resources can support existing lands and assets managed by DOI. The Budget reduces land acquisition funding to \$8 million, including balance cancellations, and would instead focus available discretionary funds on investing in and maintaining existing national parks, refuges, and public lands.

**Supports Law Enforcement capabilities.** DOI is the steward of over 600 million acres of public lands, including over 12 million acres on the United States-Mexico border. The Budget supports law enforcement efforts on the Nation's public lands to keep visitors and natural resources safe, including DOI's efforts to collaborate with other agencies supporting border security efforts. The Budget also

invests in the United States Park Police, who safeguard lives and protect America's national treasures. In addition, the Budget invests in Fish and Wildlife Service law enforcement capacity to combat illegal wildlife trafficking, in support of the President's Executive Order on combatting transnational criminal organizations.

**Invests in Essential Science Programs.** The Budget maintains funding for the Landsat 9 ground system, as well as research and data collection that informs sustainable energy and mineral development, responsible resource management, and natural hazard risk reduction.

**Expands Access and Bolsters the Outdoor Recreation Economy.** Hundreds of millions of people visit U.S. national parks, wildlife refuges, and other public lands each year to hunt, fish, hike, view wildlife, and participate in other outdoor recreation opportunities. Visitors to public lands spend money in local gateway regions, and these expenditures generate and support economic prosperity within these local economies. In addition, through the purchases of licenses and equipment—and associated excise taxes—sportsmen and women have generated billions of dollars to support conservation of wildlife and habitat. To better serve these visitors, the Budget supports expanded public access to lands and waters administered by DOI. The Budget also invests in increased access to encourage sportsmen and women conservationists, veterans, minorities, and underserved communities that traditionally have low participation in outdoor recreation activities. To further boost hunting opportunities, the Budget invests \$34 million in North American Wetlands Conservation Act grants, a program that finances conservation of wetlands and associated uplands habitat to benefit waterfowl.

*"Hunting and fishing is a cornerstone of the American tradition and hunters and fishers of America are the backbone of land and wildlife conservation"*

Ryan Zinke  
Secretary  
September 15, 2017

**Invests in Water Resources and Infrastructure.** The Budget invests in the safe, reliable, and efficient management of water resources throughout the United States. The Budget requests \$1 billion for the Bureau of Reclamation. The Budget does not propose any new starts for the Bureau of Reclamation, but rather focuses resources on operating, maintaining, and rehabilitating existing infrastructure. Through the Bureau of Reclamation and BIA, the Budget requests \$172 million for the implementation of enacted Indian water rights settlements in support of Federal trust responsibilities to Tribes. The Budget also invests \$179 million in water-related science, monitoring, research, and development to better understand the water resources challenges facing the Nation, and develop new technologies to respond to those challenges.



## DEPARTMENT OF JUSTICE

### Highlights:

- The Department of Justice defends the interests of the United States and protects all Americans as the chief enforcer of Federal laws.
- The Budget focuses on the Nation's most pressing security needs to reduce violent crime, enforce immigration laws, and continue combatting the opioid epidemic. In light of the Nation's long-term fiscal challenges, the Budget also maintains prior year spending restraints, supports administrative reorganization, and focuses resources on key priorities.
- The Budget requests \$28 billion for the Department of Justice, a \$345 million or 1.2-percent decrease from the 2017 enacted level. Targeted funding increases are provided to support public safety and national security while identifying savings opportunities.

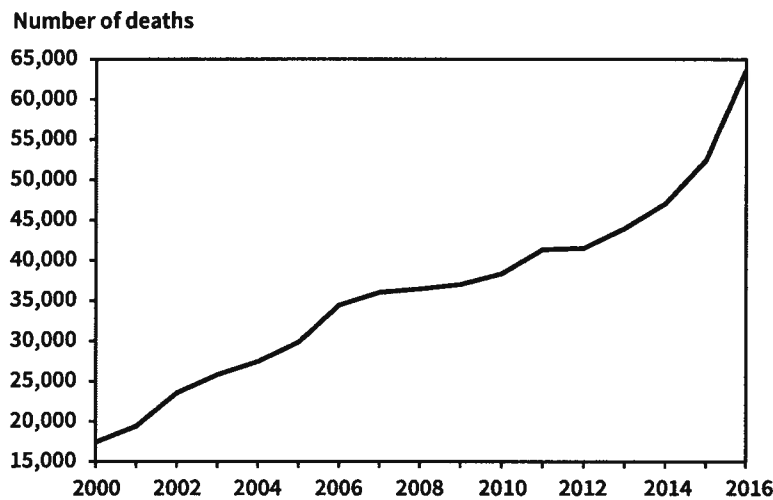
### The President's 2019 Budget:

The Department of Justice is charged with enforcing the laws and defending the interests of the United States, ensuring public safety against foreign and domestic threats, providing Federal leadership in preventing and controlling crime, seeking just punishment for those guilty of crimes, and ensuring the fair and impartial administration of justice for all Americans. With violent crime rates rising across the Nation, the work of the men and women at the Department is more important than ever. The Department is committed to dismantling criminal networks, halting the flow of illegal drugs, and restoring law and order to communities. The Budget requests a total of \$28 billion to expand the capacity of key law enforcement agencies and strengthen the Department's ability to address the most pressing public safety needs.

The Department will expand the highest priority programs that have been proven to reduce violence and drug-related crime nationwide, including the Organized Crime Drug Enforcement Task Force and the International Organized Crime Intelligence Operations Center. While today's overall crime rates are near historic lows, recent trends indicate that those levels are on the rise. In addition, national and cyber security threats persist and continue to evolve, reinforcing the Department's commitment to safeguarding American citizens. The Budget includes resources to confront each of these rising threats to the Nation while making challenging decisions to reprioritize funds from lower priority or less effective initiatives.

**Tackles the Opioid Epidemic.** Today, the United States faces the deadliest drug overdose crisis in American history. Approximately 64,000 Americans lost their lives to drug overdoses in 2016. Over 42,000 of these tragic deaths were caused by fentanyl, heroin, or prescription opioids. The Department of Justice recognizes its critical role in combating opioid misuse and heroin and fentanyl use. The Budget provides \$2.2 billion in discretionary resources for the Drug Enforcement Administration (DEA), including an additional \$41 million over the \$26 million currently provided for specialized efforts to end the opioid epidemic. The Budget also provides \$421 million in fee-funded resources for DEA's Diversion Control Fee Account to combat the diversion of licit drugs and precursor chemicals. In addition, the Budget includes \$103 million for opioid-related State and local assistance including: \$20 million for the Comprehensive Opioid Abuse Program to support a variety of activities such as treatment and recovery support services, diversion, and alternative to incarceration programs; \$59 million for Drug Courts, Mental Health Courts, and Veterans Treatment Courts; \$12 million for Residential Substance Abuse Treatment; and \$12 million for Prescription Drug Monitoring Programs.

### Drug Overdose Deaths are Increasing



Source: Centers for Disease Control WONDER.

**Targets Drug Trafficking Organizations.** To further enhance the Department's efforts to concentrate law enforcement resources on drug traffickers in the most critical regions, the Budget proposes to transfer the High Intensity Drug Trafficking Areas program from the Office of National Drug Control Policy to the DEA. Consolidating anti-drug law enforcement efforts in the DEA would better focus resources on the most dangerous, complex, and interjurisdictional drug trafficking organizations in the United States.

**Combats Violent Crime.** As violent crime rates continue to climb, the Department of Justice aims to restore public safety to communities by providing Federal resources where most needed and most effective. The Budget provides \$14.2 billion to Federal law enforcement

agencies, including the Federal Bureau of Investigation (FBI), the DEA, the United States Marshals Service, the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF), and the Organized Crime and Drug Enforcement Task Forces. This represents an increase of 2.4 percent from the 2017 enacted level, and supports the Department's ability to respond to national security crises; investigate violent- and drug-related crime; and apprehend, detain, and prosecute offenders.

ATF would transfer the entirety of its alcohol and tobacco regulatory and enforcement responsibilities to the Alcohol and Tobacco Tax and Trade Bureau (TTB) in the Department of the Treasury. This transfer would enable the ATF to hone its focus on activities that protect U.S. communities from violent criminals and criminal organizations, while consolidating duplicative alcohol and tobacco enforcement mechanisms within the TTB. In addition, the operating capability of the DEA's highly successful Special Investigative Unit program would retain its critical role in enhancing the Federal Government's ability to pursue threat networks to their source, as prioritized in the National Security Strategy.



The Budget also supports key State and local assistance programs, including \$333 million for the Byrne Justice Assistance Grants Program, which provides State and local governments with crucial Federal funding to prevent and control crime. These resources also contribute to important officer safety programs serving State and local law enforcement such as the Bulletproof Vest program.

In addition, \$70 million is provided for the Violent Gang and Gun Crime Reduction/Project Safe Neighborhoods (PSN) program. PSN is designed to create safer communities through sustained reductions in gang violence and gun crime by leveraging Federal, State, and local partnerships. The Budget also supports \$230 million for State and local juvenile justice programs, including programs aimed at delinquency prevention, intervention, and making improvements to the juvenile justice system. Another \$5 million is set aside to support the National Public Safety Partnership program, which leverages the Department's resources to reduce violence in cities with the highest violent crime rates in the Nation.

**Enforces Immigration Laws.** The Administration is committed to strengthening the Nation's security through a more robust enforcement of the Nation's immigration laws. As a result of increased enforcement, this past year the Executive Office for Immigration Review received an approximate 25-percent increase in case receipts from 2016, bringing the pending caseload to over 650,000 cases. In addition, the Agency continues to struggle with a wholly paper-based system that is both cumbersome and inefficient. The Budget provides funding for 75 additional immigration judge teams, as well as \$25 million for information technology modernization, including the expansion of electronic case processing. Taken together, these enhancements would expand capacity, improve efficiency, and remove impediments to the timely administration of justice.

**Maintains Domestic and Foreign Security.** The FBI has responsibility for protecting U.S. citizens from harm both at home and abroad. The Budget supports an increase of \$148 million for the FBI to continue to carry out its important dual missions of enforcing the Nation's laws and protecting national security. The FBI fights terrorism and combats foreign intelligence threats, prevents the spread and use of weapons of mass destruction and other emerging threats, and fights cyber-based attacks and high-technology crimes. In addition, the FBI fights public corruption, protects civil rights, combats homegrown violent extremism and domestic terrorism, and fights transnational criminal organizations, white-collar crime, violent crime, and gangs. To protect against biological threats, the Budget proposes a cost-sharing agreement between the FBI and the Department of Homeland Security for the National Biodefense Analysis and Countermeasures Center. The National Security Division is also provided with an additional \$5 million more than the 2017 enacted level to continue expanding coordination between the Federal intelligence communities to combat terrorism.

**Increases Prosecutorial Support.** Increased Assistant United States Attorney hiring in prior years has helped to expand immigration and violent crime prosecutions across the Nation. The Budget provides the United States Attorneys with \$2.1 billion, \$70 million above the 2017 enacted level, to support retention of these hires and to allow for \$4.7 million in additional paralegal support.

**Reprioritizes Prison Spending.** The Bureau of Prisons (BOP) is responsive to Federal efforts to fight violent crime and prosecute high priority offenders. Recent declines in the prison population coupled with the continuation of contracts with privately-operated facilities ensure that BOP has the necessary space to absorb population fluctuations. The Budget maintains this capacity by funding BOP at \$7.1 billion, approximately equal to the 2017 enacted level. In addition, the Budget proposes to leverage economies of scale by closing two standalone minimum security camps and instead transferring inmates to larger Federal complexes. The Budget also proposes to realign regional offices to eliminate duplication and reduce bureaucracy.

### Expanding Apprenticeships in America

*"Today's apprentices will construct the roads and bridges that move our citizens, they will bend the metal and steel that shape our cities, and they will pioneer the new technology that drives our commerce."*

President Donald J. Trump  
June 15, 2017

The Presidential Executive Order "Expanding Apprenticeships in America," directed agencies to prioritize effective, evidence-based workforce development programs through the promotion of apprenticeship. Accordingly, the Budget provides \$10 million for expansion of effective apprenticeship programs in the Bureau of Prisons, giving inmates the necessary skills for lucrative employment in the sectors employers—and our economy—most need.

**Strengthens Prisoner Reentry Programming.** In addition to prosecuting crime and enforcing the Nation's laws, the Administration proposes to promote public safety by preventing individuals who have reentered society from returning to criminal activity. Approximately 95 percent of people in State or Federal prison will be released at some point, and two-thirds are rearrested for a new offense within three years. The Administration is committed to breaking this cycle of crime and preparing returning citizens for lives as responsible, contributing members of society. The Budget provides approximately \$739 million for reentry programming in BOP, including funding for education, career and technical training, substance abuse, and residential reentry centers. In addition, through State and local assistance programs, the Budget provides \$48 million for the Second Chance Act Grant program to reduce recidivism and help offenders return to productive lives.

**Expands Efforts to Combat Violence Against Women.** The Budget provides \$486 million to reinforce efforts to combat and respond to violent crimes against women, including \$215 million for Services, Training, Officers, and Prosecutors Grants. Domestic and sexual violence persist as serious threats to community safety and public health, with current estimates showing that 19.1 percent of

women and 1.5 percent of men have been raped, and 23.2 percent of women and 13.9 percent of men have experienced severe physical violence by an intimate partner at some point in their lives. These grants play a critical role in helping to create a coordinated community response to this problem.

**Prioritizes Evidence-Based Practices that Work.** The Budget increases the set-aside for research, evaluation, and statistics at the Office of Justice Programs. In addition, the Budget supports the National Crime Statistics Exchange Initiative to develop nationally representative crime statistics. The Budget also continues to invest in *CrimeSolutions.gov*, a "what works" clearinghouse for best practices in criminal justice, juvenile justice, and crime victim services. These investments bolster the Administration's efforts to ensure that more Federal funding flows to evidence-based activities.



## DEPARTMENT OF LABOR

### Highlights:

- The Department of Labor (DOL) fosters the well-being of wage earners, job seekers, and retirees.
- Given the budget constraints the Nation faces after decades of reckless spending, and the current need to rebuild the Nation's military without increasing the deficit, the Budget focuses DOL on its highest priority functions and disinvests in activities that are duplicative, unnecessary, unproven, or ineffective. The Budget also takes steps to reorganize and modernize the Agency's operations so scarce taxpayer dollars are spent well.
- The Budget requests \$9.4 billion for DOL, a \$2.6 billion or 21-percent decrease from the 2017 enacted level.

### The President's 2019 Budget:

DOL promotes the well-being of American workers, job seekers, and retirees by helping them improve their skills, find work, and get back on their feet after job loss, injury, or illness, as well as safeguarding their working conditions, health and retirement benefits, and wages. Workers are the backbone of the American economy, and the Nation needs a skilled and productive workforce to keep its economy growing. The Budget improves the quality of life for all workers by making targeted, evidence-based investments to help workers get ahead and by eliminating duplicative, wasteful, and non-essential activities.

### ***Building a Highly Skilled and Competitive Workforce***

**Expands Access to Apprenticeship.** The Budget invests \$200 million in apprenticeships, a proven earn-while-you-learn strategy that equips workers with the skills they need to fill open, high-paying jobs. Apprenticeship is a great solution for employers looking for a skilled workforce and workers looking for an affordable path to a secure future, yet currently only

*"Not only will our apprentices transform their lives, but they will also transform our lives in the truest sense. Today's apprentices will construct the roads and bridges that move our citizens, they will bend the metal and steel that shape our cities, and they will pioneer the new technology that drives our commerce."*

President Donald J. Trump  
June 15, 2017

550,000 individuals—less than half of one percent of the workforce—participate in apprenticeships each year. As part of implementing the President’s Executive Order “Expanding Apprenticeships in America,” the Department is establishing a new industry-recognized apprenticeship system to modernize and expand the U.S. approach to apprenticeships. DOL is working to empower employers, educational institutions, labor-management organizations, trade associations, States, and other third parties to collaborate to create new, industry-driven apprenticeship solutions. The Department is also pursuing ways to expand apprenticeship opportunities in high-growth sectors where apprenticeships are underutilized, including healthcare, information technology, and advanced manufacturing.

**Develops a Plan to Reorganize and Consolidate the Nation’s Workforce Development Programs.** The Federal Government has more than 40 workforce development programs spread across 14 agencies with a total annual cost of approximately \$17 billion. Despite changes in the recent reauthorization of the Workforce Innovation and Opportunity Act, the system remains fragmented at the Federal level, perpetuating unnecessary bureaucracy and complicating State and local efforts to meet the comprehensive needs of Americans seeking workforce-related services. The Secretaries of Labor and Education, who administer most of the programs, are working on a comprehensive plan to consolidate and reorganize Federal workforce development programs to ensure that American workers receive the highest quality services possible and are prepared to fill the high-growth jobs of today and tomorrow. The plan will be released as part of a spring 2018 Government reorganization package.

**Reforms Job Corps.** Job Corps trains and educates approximately 50,000 disadvantaged youth at 125 primarily residential centers across the United States. The Budget takes aggressive steps to improve Job Corps for the youth it serves by: closing centers that do a poor job educating and preparing students for jobs; focusing the program on the older youth for whom the program is more effective; improving center safety; and making other changes to sharpen program quality and efficiency. As part of this reform effort, the Budget ends the Department of Agriculture’s (USDA) role in the program, unifying responsibility in DOL. Workforce development is not a core USDA role, and the 26 centers it operates are overrepresented in the lowest performing cohort of centers. The Budget also announces other reforms to the program, including shifting the outreach and admissions function to States and piloting the use of cooperative agreements with non-profits that have expertise in serving youth to operate centers. These reforms would save money and improve results by eliminating ineffective centers and finding better ways to educate and train youth.

### ***Modernizing the Unemployment Safety Net to Emphasize Work***

**Reduces Waste, Fraud, and Abuse While Getting Claimants Back to Work More Quickly.** The Budget expands Reemployment Services and Eligibility Assessments, an evidence-based activity that saves an average of \$536 per claimant in unemployment insurance (UI) benefit costs by reducing improper payments and getting claimants back to work more quickly and at higher wages. The Budget proposes to create a permanent program that would allow each State to provide these services to one-half of its UI claimants as well as all of its transitioning servicemembers. The Budget also reduces waste, fraud, and abuse in the UI program with a package of program integrity proposals. These proposals would require States to use the tools already at their disposal for combatting improper payments while expanding their authority to spend certain UI program funds on activities that reduce waste, fraud, and abuse in the system.

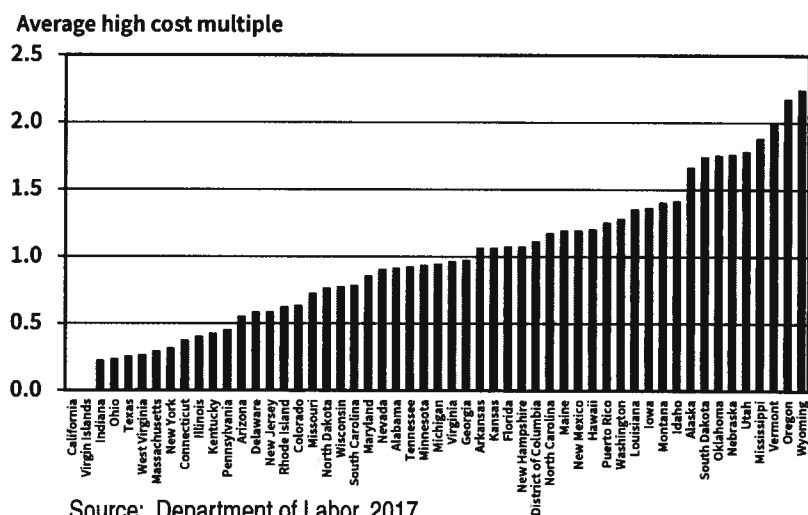
**Focuses Trade Adjustment Assistance on Apprenticeship and Other Work-Based Training.** The Trade Adjustment Assistance (TAA) program, which provides cash benefits and training to workers who have been displaced by international trade, is in need of reform. A rigorous 2012 evaluation of the program demonstrated that workers who participated in the program had lower earnings than

the comparison group at the end of a four-year follow-up period,<sup>1</sup> in part because they were more likely to participate in long-term job training programs rather than immediately reentering the workforce. However, this training was not targeted to in-demand industries and occupations—only 37 percent of participants became employed in the occupations for which they trained. The Budget proposes to refocus the TAA program on apprenticeship and on-the-job training, earn-as-you-learn strategies that ensure that participants are training for relevant occupations. States would also be encouraged to place a greater emphasis on intensive reemployment services for workers who are not participating in work-based training, getting those workers back into the workforce more quickly.

**Strengthens the Unemployment Safety Net.**

States are responsible for funding the benefits they provide under the State-administered UI program. In order to avoid raising taxes on employers in the middle of a recession, States should build balances that would allow them to cover benefits when unemployment spikes. Despite years of recovery since the Great Recession, many States' UI accounts are still not adequately financed—as of September 30, 2017, only 24 States had sufficient reserves to weather another recession. The Budget pro-

**Unemployment Insurance Reserves by State**



Source: Department of Labor, 2017

poses to strengthen the incentive for States to prepare for the next recession and adequately fund their UI systems by reducing Federal tax credits in States with particularly low reserve balances.

**Protecting American Workers**

**Secures Safe and Healthy Workplaces.** The Budget maintains targeted investments in the Occupational Safety and Health Administration (OSHA) and Mine Safety and Health Administration aimed at preventing worker fatalities, injuries, and illnesses through enforcement, outreach, and compliance assistance. The Budget increases OSHA Federal Compliance Assistance to assist employers who want help protecting their workers through cooperative programs.

**Makes Health Insurance More Affordable for Small Businesses.** The President's Executive Order "Promoting Healthcare Choice and Competition Across the United States" directed the Secretary of Labor to expand access to health coverage by allowing more employers to form Association Health Plans (AHPs), arrangements under which small businesses may band together to offer competitive and affordable health insurance to their employees. The Budget supports this initiative by increasing funding for the Employee Benefits Security Administration to develop policy and enforcement capacity to expand access to AHPs.

<sup>1</sup> <https://www.mathematica-mpr.com/our-publications-and-findings/publications/the-evaluation-of-the-trade-adjustment-assistance-program-a-synthesis-of-major-findings>

**Rebuilds DOL's Role in Overseeing Union Integrity.** To help safeguard labor union democracy and financial integrity, the Budget takes steps to restore the Office of Labor-Management Standards' investigative workforce, which has fallen by more than 40 percent during the past 10 years. The Budget would strengthen protections for union members by supporting more audits and investigations to uncover flawed officer elections, fraud, and embezzlement.

**Protects Americans' Pensions.** The Pension Benefit Guaranty Corporation's multiemployer program, which insures the pension benefits of 10 million workers, is at risk of insolvency by 2025. As an important step to protect the pensions of these hardworking Americans, the Budget proposes to add new premiums to the multiemployer program, raising approximately \$16 billion in premiums over the 10-year window. At this level of premium receipts, the program is more likely than not to remain solvent over the next 20 years, helping to ensure that there is a safety net available to workers whose multiemployer plans fail.

**Reforms the Federal Employees' Compensation Act.** The Budget proposes to reform the Federal Employees' Compensation Act program, which provides workers' compensation benefits to Federal employees injured or killed on the job and their survivors. The proposed reform would save taxpayer dollars by modernizing program administration, simplifying benefit rates, and introducing controls to prevent waste, fraud, and abuse.

**Puts American Workers First.** DOL handles the labor certification component of foreign temporary work visa programs, which ensure that American workers are not unfairly displaced or disadvantaged by foreign workers. The certification programs lack a reliable workload-based source of funding, which has created recurring seasonal backlogs for employers and hindered DOL's ability to enforce protections for workers. The Budget proposes to establish fees to create a workload-based funding source and place responsibility for funding this work on the program's users rather than taxpayers.

### ***Supporting Working Families***

**Provides for Paid Family Leave for New Parents.** The Budget invests in a better future for Americans with a fully paid-for proposal to provide six weeks of paid family leave to new mothers and fathers, including adoptive parents, so all families can afford to take time to recover from childbirth and bond with a new child. Using the UI system as a base, the proposal would allow States to establish paid parental leave programs in a way that is most appropriate for their workforce and economy. The Administration looks forward to working with the Congress to advance policies that would make paid parental leave a reality for families across the Nation.

### ***Making Government More Efficient***

**Tackles Duplication and Inefficiency at the Department of Labor.** DOL is acting to implement in-house reforms consistent with the President's directive to reorganize and improve the Federal Government. Many of DOL's administrative activities, including procurement, human resources, financial management, and physical security, are separated across its subcomponents, creating duplication and wasting resources that would be better spent on core mission-related work. As part of its plan, DOL is centralizing these activities to improve oversight, eliminate duplication, save money, and achieve economies of scale. In addition, the Budget gives more tools to DOL's Chief Information Officer to modernize the Department's antiquated information technology systems by reallocating base resources.



## DEPARTMENT OF STATE AND OTHER INTERNATIONAL PROGRAMS

### Highlights:

- The Department of State, the U.S. Agency for International Development (USAID), and other international programs help to advance the national security interests of the United States by building a more democratic, secure, and prosperous world.
- The Budget for the Department of State and USAID's diplomatic and development activities supports the strategic objectives of the United States, including those outlined in the 2018 Budget and the newly released National Security Strategy of the United States. In addition, the Budget supports Agency reform and critical investments that improve accountability, effectiveness, and efficiency in using taxpayer dollars to advance U.S. foreign affairs and national security goals. By pursuing a more balanced share of international spending and holding Departments and international organizations accountable for results, the Budget supports U.S. interests abroad, which would lead to a more prosperous and secure America.
- The Budget requests \$25.8 billion in base funding for the Department of State and USAID, a \$9 billion or 26-percent decrease from the 2017 enacted level. The Budget also requests \$12 billion as Overseas Contingency Operations funding for extraordinary costs, primarily in war areas such as Syria, Iraq, and Afghanistan, for an Agency total of \$37.8 billion, which is a \$191 million increase from the 2018 Budget. The Budget also requests \$1.4 billion for Department of the Treasury international programs, a \$354 million or 20-percent reduction from the 2017 enacted level.

### The President's 2019 Budget:

The Budget supports the missions of the Department of State, USAID, and other international programs to advance the national security interests of the United States. The Budget promotes the development of more resilient and democratic societies, leading to a more secure and prosperous world. The Budget requests sufficient resources for the Department of State and other international programs to carry out their responsibilities under the National Security Strategy to protect the American people, preserve peace and security, promote American prosperity, and advance American influence. The Budget would enable the United States to compete for influence against those who do not share America's values or interests, catalyze conditions to help aspiring partners achieve mutually beneficial economic and security goals, and respond to the emerging era of great power competition across political, economic, and information domains. In addition, the Budget prioritizes diplomatic and development activities that provide maximum policy benefits, while making efficient, effective, and accountable use of taxpayer resources. Furthermore, the Budget upholds

*"America is a sovereign Nation and our first priority is always the safety and security of our citizens. We are not here to lecture—we are not here to tell other people how to live, what to do, who to be, or how to worship. Instead, we are here to offer partnership—based on shared interests and values—to pursue a better future for us all."*

President Donald J. Trump  
May 21, 2017

U.S. commitments to partners and allies, while emphasizing the critical role of other donors to advance shared priorities.

**Provides a Platform of over 275 Embassies, Consulates, and Diplomatic Missions Around the World for the Development and Implementation of U.S. Foreign Policy, and to Carry out Visa and Passport Programs to Protect the American People.** The Budget requests \$8.2 billion for Diplomatic Programs and the Information Technology (IT) Central Fund, which would support the critical day-to-day operations of the Department's overseas staff. In addition, the Budget is investing in more efficient and effective business processes for the Department of State. Specifically, the Budget requests \$96 million for human

capital investments in order to integrate a comprehensive approach to attracting, developing, and enabling personnel to have the resources and capabilities required for improved performance, leadership, and accountability. The Budget requests an additional \$150 million to address key IT investments that would modernize legacy systems and software, allow the workforce to be more agile and resourceful—regardless of their location—and accelerate cloud-based solutions. The Budget also requests \$1.3 billion for USAID Operations to support USAID personnel in 87 missions.

**Prioritizes the Safety and Security of American Diplomats and Staff Overseas.** The Budget requests \$4.6 billion to protect overseas personnel and facilities. This funding level includes the Department's share of the \$2.2 billion requested Government-wide in the Budget for new, secure embassy construction, as recommended by the Benghazi Accountability Review Board report. This would continue the upward trend of housing overseas personnel in safer diplomatic facilities. With the proposed level of funding, the Department of State would continue to protect American personnel representing more than 30 agencies, as well as provide services to Americans overseas, in a safe and secure environment.

**Promotes a Free and Open Indo-Pacific.** The United States' future security and prosperity depends on maintenance of free-and-open access to the Indo-Pacific. The Budget supports the Administration's commitment to U.S. leadership in this dynamic region through advancing democracy and good economic governance, supporting U.S. private sector competitiveness, promoting exports of U.S. goods and services, and sustaining the role of the United States as the region's preferred security and economic partner.

**Advances American Interests in the Middle East.** The Budget fully supports the new, 10-year Memorandum of Understanding between the United States and Israel, including \$3.3 billion in Foreign Military Financing grant assistance to bolster Israel's capacity to defend itself and maintain its qualitative military edge. The Budget also requests \$1.3 billion in economic and security assistance to support a long-term commitment to Jordan in recognition of the critical U.S.-Jordan strategic partnership. This extraordinary level of commitment contributes to Jordan's stability and security, and to shared goals of peace and prosperity in the Middle East and beyond. The Budget also dedicates significant security and economic assistance to other key partners in the region, including Egypt. In addition, the Budget supports the President's strategy to counter the destabilizing influence of the Iranian regime in the Middle East and beyond.



**Keeps the Islamic State of Iraq and Syria (ISIS) and Other Violent Extremist Organizations on the Path to Lasting Defeat.** The Budget for the Department of State and USAID supports the global strategy to defeat ISIS and other terrorist organizations, in coordination with the Global Coalition working to defeat ISIS as well as other partner countries. The Budget provides targeted assistance to address sources of regional instability and support partner country efforts to re-establish security and stability within their borders. These efforts constitute conditions for the long-term defeat of violent extremists, and protect U.S. interests in the region.

**Supports the President's Strategy in Afghanistan and South Asia.** The Budget's more than \$630 million for civilian assistance supports the President's new strategy to empower the people of Afghanistan to take ownership of their future. In addition, the Budget strengthens and sustains improvements in education, health, governance, and other sectors that are essential for securing a stable and prosperous Afghanistan. The Budget also allows the United States to honor the pledge made at the Brussels conference on Afghanistan, which anticipated gradually declining assistance levels. The Budget requests \$256 million for Pakistan in economic and other assistance to help increase stability, promote economic growth, and create opportunities for U.S. businesses. In addition, the Budget requests \$80 million in Foreign Military Financing assistance to enhance Pakistan's counterterrorism and counterinsurgency capabilities, contingent on Pakistan taking appropriate action to expand cooperation in areas where U.S.-Pakistan interests converge and to address areas of divergence, in line with the Administration's South Asia strategy.

**Counters the Proliferation of Weapons of Mass Destruction.** The Budget prioritizes efforts to secure, eliminate, and prevent the proliferation of weapons of mass destruction and their delivery systems. Through diplomatic engagement, and bilateral and multilateral programs, the United States continues to promote strategic stability. These efforts build the international coalitions necessary to stop the spread of materials and expertise that aid state and non-state proliferators, and ensure that those who seek to build and use these weapons are held accountable.

**Proposes a Reformed, Consolidated U.S. Development Finance Institution to Expand U.S. Influence Abroad.** During his November 2017 trip to Asia, the President committed to reforming U.S. development finance institutions to better incentivize private sector investment in developing nations, counter America's competitors, and provide better alternatives to State-directed initiatives. The Budget builds on this commitment and acts on the President's call for a streamlined, more effective Government. Specifically, the Budget consolidates several private sector mobilization and development finance functions at various agencies, such as the Overseas Private Investment Corporation (OPIC) and USAID's Development Credit Authority, into a new, enhanced U.S. Development Finance Institution (DFI). The DFI would not only reduce fragmentation, achieve operational efficiencies, and provide cost savings to the taxpayer, but it would also improve coordination and policy alignment. The DFI also includes reformed and modernized tools to ensure that U.S. development finance effectively catalyzes, but does not displace, private sector resources, and does not create undue risk for the U.S. taxpayer. A reformed, consolidated DFI more effectively supports economic growth and development outcomes in emerging markets. It would also advance U.S. national security interests, and support U.S. companies, jobs, and exports.

**Ensures that Trade is Fair and Reciprocal.** The Budget requests \$63 million for the Office of the U.S. Trade Representative (USTR) in support of the President's ambitious trade agenda. By renegotiating outdated agreements and pursuing opportunities for new trade deals, the Administration is working to ensure that trade grows the economy and brings jobs back to America's shores. The Administration further protects American workers and businesses by identifying trade violations, and pursuing all enforcement options at its disposal to end these abuses, many of which went unaddressed for years.

**Levels the Playing Field for America's Exporters.** The Budget supports a fully functioning Export-Import Bank (ExIm) to help level the playing field for America's exporters and help America compete, while ensuring that ExIm does not displace the private sector. The Budget would allow ExIm to play an important role in supporting the Administration's job creation agenda by facilitating exports where market gaps would otherwise exist, while ensuring that ExIm does not unnecessarily distort the market. ExIm would focus its efforts on market segments where U.S. support is critical to compete, including in areas of national security importance, and on supporting small and medium-sized American exporters that are the engines of economic growth and U.S. job creation.

**Targets Foreign Assistance to Promote Developing Countries' Self-Reliance and Ultimately End their Need for Aid.** The Budget reflects the Administration's goal to encourage and advance partner countries' self-reliance in order to become tomorrow's trading and security partners. Working with partners to help them reach their development goals advances common interests and values, strengthens stability in key regions, boosts U.S. economic opportunities, and establishes the conditions for a more secure and prosperous world. The Budget supports new efforts to track countries' development progress from fragility through self-reliance to lasting prosperity. Going forward, agencies would use this information to guide resource requests, program approaches, incentivize critical reforms, and measure program performance to support partner countries' progress along the development pathway and toward a transition away from the need for aid. The Budget also emphasizes aid approaches that bring in private capital and innovation, foster fair and reciprocal trading relationships, and empower reform-minded governments and people who share the same goals to develop their own capabilities and resources.

**Concentrates Efforts Against HIV/AIDS.** In September, Secretary Tillerson launched the President's Emergency Plan for AIDS Relief's (PEPFAR) new Strategy for Accelerating HIV/AIDS Epidemic Control (2017-2020). The Budget supports the new impact strategy by continuing support in more than 50 countries and strengthening U.S. investment in a subset of countries, which represent the most vulnerable communities to HIV/AIDS and have the potential to achieve control by 2020. In addition, the Budget requests \$925 million to complete a three-year commitment to the Global Fund to Fight AIDS, Tuberculosis and Malaria, fully funding the U.S. Government's Fifth Replenishment pledge to match \$1 for every \$2 provided by other donors. At the funding level requested in the Budget, the United States would provide sufficient resources to maintain all current patient levels on HIV/AIDS treatment. U.S. efforts to control the HIV/AIDS epidemic are a direct reflection of U.S. leadership abroad and the goodwill, compassion, and generosity of the American people.

**Helps Prevent Public Health Emergencies through the Global Health Security Agenda (GHSA) and Advances Maternal and Child Health.** Containing the spread of deadly diseases overseas is a vital U.S. national security interest. To prevent, detect, and respond to infectious disease threats abroad, the Budget request supports an array of global health security activities through the GHSA. The Budget also requests nearly \$2 billion for lifesaving health interventions through USAID, including the President's Malaria Initiative, programs that address tuberculosis, polio eradication, and Neglected Tropical Diseases, and the U.S. contribution to Gavi, the Vaccine Alliance. With the Protecting Life in Global Health Assistance policy now in place, the Budget request includes U.S. investments in family planning and reproductive health, with an emphasis on evidence-based methods, including fertility awareness. These services would save thousands of lives and support women's empowerment.

**Improves Food Security and Resilience.** To help address global hunger and poverty, the Budget includes bilateral funding for agriculture-led food security programs. Increased emphasis on resilience and evidence-based programs that aim to address root causes of vulnerability would help prevent future famines in regions that face recurrent crises, particularly in Sub-Saharan Africa.

Resilience and targeted programs have been shown to be effective in helping vulnerable populations withstand severe weather and other shocks, which limits the need for emergency food and other humanitarian assistance. Beyond resilience, this funding is focused on strengthening the capacity of developing countries with extreme poverty that have strong potential to address their severe food insecurity, through activities such as improvements in smallholders' agricultural productivity, markets, and nutrition, and which commit to undertake policy reforms as part of robust country-led strategies.

**Maintains U.S. Global Humanitarian Leadership While Expecting Others to do More.**

The Budget requests significant humanitarian assistance resources enabling the United States to remain the largest single humanitarian donor. The Budget request also enables the United States to address major humanitarian crises, including those driven by conflict, such as in Syria, Yemen, and Iraq. The Budget relies on a new approach to relief that includes new efforts to influence other donors to give a greater share. The Budget also demands improved performance by United Nations (UN) organizations and other implementers to maximize the benefit for recipients of assistance. This approach supports the priority to impose greater accountability on international partners along with donor burden sharing that is more balanced, while reducing suffering and meeting the needs of refugees and displaced persons close to their homes until they can safely return.

*"To honor the people of our nations, we must ensure that no one and no member state shoulders a disproportionate share of the burden, and that's militarily or financially. We also ask that every peacekeeping mission have clearly defined goals and metrics for evaluating success. They deserve to see the value in the United Nations, and it is our job to show it to them."*

President Donald J. Trump  
September 18, 2017

meeting the needs of refugees and displaced persons close to their homes until they can safely return.

**Mobilizes Partner Countries' Domestic Resources, a Critical Step on the Path to Self-Reliance and Transitioning Away from Aid Assistance.**

Domestic resource mobilization (DRM) presents a long-term path to sustainable development finance by encouraging countries to adopt effective, transparent, and accountable systems for mobilizing their own resources to invest in their own development. The U.S. Government's DRM activities are funded by USAID, Treasury's Office of Technical Assistance, the Millennium Challenge Corporation (MCC), and PEPFAR. USAID's new centrally-managed DRM initiative would equip and challenge partner countries to more effectively mobilize and manage domestic public and private resources, leverage other available financing sources, and sustainably lead their own development. USAID is building on the experiences and successes of DRM efforts in countries such as El Salvador, where improvements in tax collection over the last decade have increased government revenues by \$350 million per year. Assistance would be provided to local governments to mobilize and manage public revenues, as well as private capital via local capital markets, to finance their own development and decrease aid dependency. This initiative would strive to ensure partner country commitment, a robust graduation strategy, rigorous monitoring and evaluation, and enhanced public-private dialogue.

**Ensures U.S. Leadership at Multilateral Development Banks (MDBs).** The Budget requests \$1.4 billion in funding for MDBs, including the World Bank's International Development Association, the African Development Fund, and the Asian Development Fund. As a leading donor in these institutions, the United States demands high performance, reforms in line with U.S. values, and strategic investments in projects that serve U.S. development, foreign policy, and national security goals.

**Advances U.S. Interests and Values in Multilateral Organizations.** The United States will compete and be a leader in multilateral organizations so that American interests and principles are protected. The Administration remains committed to the need for greater transparency and reform

in international bodies and for other donors to invest more. The Budget requests more than \$2 billion for contributions to the UN Secretariat and technical agencies, UN peacekeeping, and other international organizations while signaling intent to pursue greater accountability and emphasize shared responsibility among members throughout the international system. In support of these goals, the Department of State and USAID will review multilateral aid and contributions to evaluate how each multilateral organization to which the United States belongs advances American interests.

**Reforms International Affairs Agencies to Strengthen Implementation of their Strategic Missions.** The Administration is committed to making the Federal Government more effective, more efficient, and more accountable. In 2019, the Department of State and USAID will continue to implement an in-depth redesign process to adapt U.S. diplomacy and development to the 21<sup>st</sup> Century, and better position each Agency for the future. More than 35,000 State and USAID professionals provided comments about which strengths to build on and which inefficiencies to remedy, including information technology and human capital management. The Budget also supports USAID's efforts to realign its strategies, programs, and processes to improve project design and procurement, diversify its portfolio of partners, and build local capacity to prepare countries to progress beyond the need for traditional assistance. The Budget further proposes consolidating small grants assistance currently managed by the U.S. African Development Foundation and the Inter-American Foundation into USAID, in order to improve alignment while also elevating locally driven development in poor and remote communities.



## DEPARTMENT OF TRANSPORTATION

### Highlights:

- The mission of the Department of Transportation (DOT) is to ensure that: the Nation has the safest, most efficient, and modern transportation system in the world; the system improves the quality of life for all American people and communities, from rural to urban; and the system increases the productivity and competitiveness of American workers and businesses.
- The Budget request for DOT streamlines the Department to focus on its vital Federal safety mission, and provides critical investments necessary for regionally and nationally significant projects. The Budget also ensures taxpayer dollars are spent prudently, by reducing, eliminating, and reforming programs that are ineffective, inefficient, and unaccountable, or lack a clear Federal nexus and fail to encourage innovation.
- The Budget requests \$15.6 billion in discretionary budget authority for 2019, a \$3.7 billion or 19-percent decrease from the 2017 enacted base discretionary level of \$19.3 billion (which excludes supplemental emergency relief funding). The Budget also provides \$60.9 billion in mandatory funds and obligation limitations. For programs funded from the Highway Trust Fund, the Budget is consistent with the fourth year of the Fixing America's Surface Transportation Act (FAST Act) of 2015.

### The President's 2019 Budget:

DOT oversees the safety, security, mobility, efficiency, and interconnectedness of the Nation's vast transportation networks. DOT's highest priority is the safety of the American people. The Budget reflects this priority by providing DOT the resources necessary for ensuring that the Nation's air, surface, and maritime transportation systems are safe. Another top priority is improving the condition and performance of the Nation's transportation infrastructure. The Budget ensures that DOT would continue to advance nationally and regionally significant projects, via Federal financial assistance and timely, prudent regulatory and permitting decision-making. While providing the funds to support these and other important priorities, the Budget also reflects reductions and eliminations of programs that are inefficient, ineffective, or should be carried out by States, local government, or the private sector.

**Ensures the Safety of the Nation's Transportation System.** The Budget prioritizes the resources necessary for fulfilling the Department's safety missions. The human and economic costs of transportation accidents are severe, and DOT is committed to preventing as many accidents as possible through its educational outreach, investments, and oversight of safety standards. The vast majority of transportation-related fatalities occur on the Nation's highways: 37,461 in 2016. The Budget provides

**Promise Made:**

*"Our infrastructure will again be the best in the world."*

President Donald J. Trump  
August 15, 2017

**Promise Kept:**

To dramatically modernize the Nation's infrastructure, and make it the best in the world, the Administration is proposing a comprehensive Infrastructure Initiative. The initiative is designed to: spur additional State, local, and private infrastructure investment by awarding incentives to project sponsors for demonstrating innovative approaches that would generate new revenue streams, modernize procurement practices, and improve project performance; support bold, innovative, and transformative infrastructure projects that can significantly improve existing conditions; support rural economic competitiveness through a Rural Formula Grant program; and accelerate the delivery of nationally and regionally significant projects with increased Federal loan support. The Administration is also advocating for transformational reform to the environmental permitting process, to shorten the timelines it takes to permit a project, while still maintaining good environmental outcomes. These programs would support additional investment in highways, bridges, airports, rail, ports, and other types of infrastructure in urban and rural America.

\$2.6 billion to the Federal Highway Administration's (FHWA) Highway Safety Improvement Program, to assist States in the implementation of their safety plans. The Budget also funds other FHWA, National Highway Traffic Safety Administration (NHTSA), and Federal Motor Carriers Safety Administration (FMCSA) safety programs, to prevent highway fatalities. In addition, the Budget provides resources to support the development of autonomous vehicles and infrastructure, which hold promise to dramatically improve highway safety and deliver many other benefits. The Budget also supports the continued emphasis on ensuring that the air, rail, transit, and pipeline systems are the safest in the world.

**Continues Investment in Surface Transportation.** Americans' quality of life and long-term economic prosperity depend, in part, on the condition and performance of the Nation's transportation infrastructure. To address these challenges, the Budget requests \$57.4 billion in mandatory funds and obligation limitation to improve the Nation's highways, bridges, and transit systems. The Budget includes \$46 billion for highway infrastructure and safety programs, \$9.9 billion for transit infrastructure, and \$1.4 billion for NHTSA and FMCSA safety programs. These levels match the authorized amounts in the FAST Act.

**Reforms Air Traffic Control.** Consistent with the 2018 Budget, the Budget includes a multiyear reauthorization proposal to shift the air traffic control function of the Federal Aviation Administration to a non-governmental, independent air traffic services cooperative, making the system more efficient and innovative while maintaining safety. Similar to successful efforts in many other developed countries, the goal is to create a system that can respond to changing air travel demand by deploying cutting-edge technology and giving airlines, general aviation users, and passengers a system that is a good steward of their financial resources.

**Reforms the Essential Air Services (EAS) Program.** EAS was designed as a temporary program nearly 40 years ago. However, today many EAS flights

are not full and have high per passenger subsidy costs. Several EAS eligible communities are relatively close to major airports. The Budget includes a legislative reform proposal to modify the definition of essential air service, to ensure that Federal funds are efficiently targeted at the communities most in need. These reforms aim to reduce support for service that results in high per passenger subsidies (often hundreds of dollars per passenger) and end subsidies to communities that are relatively close to other airports. The Budget requests \$93 million in discretionary resources, a reduction of \$57 million from the 2017 enacted level of \$150 million.

**Reforms Amtrak Long Distance Services.** While Amtrak has in recent years improved its ridership and revenue on the Northeast Corridor and State Supported Routes, Amtrak continues to rely exclusively on Federal subsidies to operate long distance train routes, which have large operating losses and serve a small number of passengers. The Budget proposes reforms to Amtrak to improve efficiencies in long distance services and reduce reliance of the Federal Government. In particular, the Budget proposes that States begin to share the operating subsidy costs of Long Distance routes with the Federal Government. This would make States more equal partners with the Federal Government, and would strengthen the responsiveness of Amtrak to the communities they serve. State contributions to long distance routes is only one tool in the menu of options for reform the Administration will be exploring to improve the current system and reduce Federal subsidies in the Long Distance network.

**Eliminates Discretionary Grant Programs.** Consistent with the 2018 Budget, the Budget eliminates funding for the unauthorized Transportation Investment Generating Economic Recovery discretionary grant program, which awards grants to projects that are generally eligible for funding under existing surface transportation formula grant and loan programs. In addition, DOT's Infrastructure For Rebuilding America grant program, authorized by the FAST Act, supports larger highway and multimodal freight projects with demonstrable national or regional benefits. The Budget also proposes to wind down the Federal Transit Administration's Capital Investment Grant program (known as New Starts), by limiting funding to projects with existing full funding grant agreements only. The President's Infrastructure Initiative is designed to incentivize States and localities to raise new revenue and funding dedicated for infrastructure investment, via competitive Federal grant awards and other incentives. Those new State and local funds would be available for transportation projects prioritized by those communities, which are better equipped to understand their infrastructure needs. The Federal Government would continue to be a partner in advancing large, regionally- or nationally-significant projects via expanded Federal credit support.

**Reorganizes the Department of Transportation.** The Budget includes proposals in response to Executive Order 13781, which requires each agency to prepare a plan to reorganize the agency, if appropriate, in order to improve its efficiency, effectiveness, and accountability. One such proposal is to modernize Air Traffic Control. Another proposal to increase effectiveness is to explore the transfer of certain surface transportation job training programs to the Department of Labor, the Federal Agency with the most expertise in job training programs. The Department is also undertaking a major shared services effort to consolidate acquisitions, human resources, and information technology functions within the Department.

**Large Increase in 2017 Loans for Transportation Infrastructure Renewal**

(Dollars in millions)

	2015	2016	2017
Loans Closed .....	7	6	12
TIFIA Assistance ...	\$2,384	\$2,180	\$3,851
Total Project Costs ..	\$8,776	\$6,793	\$14,602

Source: DOT

DOT's Build America Bureau provides innovative financing support for large, complex transportation infrastructure projects. One of the major financial tools the Bureau executes is the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program. TIFIA loans leverage substantial non-Federal investment to support nationally or regionally significant transportation projects. In 2017, the Bureau provided \$3.9 billion in TIFIA assistance, \$1.7 billion or 77 percent more than in 2016. This assistance supported \$14.6 billion in infrastructure improvements, \$7.8 billion or 115 percent more than in 2016. Examples of recently financed projects include construction of a bridge and roadways connecting Indiana and Kentucky; a public-private partnership toll road project in Harris County, Texas; and a 17.6-mile tunnel connecting the Norfolk/Virginia Beach areas to Virginia's eastern shore.



## DEPARTMENT OF THE TREASURY

### Highlights:

- The Department of the Treasury (Treasury) manages the U.S. Government's finances, promotes conditions that enable stable economic growth, protects the integrity of the financial system, and combats financial crimes and terrorist financing.
- The Budget requests the resources necessary to responsibly manage the Nation's debt and efficiently collect revenue while reallocating funding from non-mission critical areas to invest in the financial enforcement tools that would safeguard the financial system and bring maximum economic pressure against North Korea and other national security threats.
- The Budget requests \$12.3 billion in base discretionary resources for Treasury's domestic programs, a \$392 million or 3-percent decrease from the 2017 enacted level. This program level excludes mandatory spending changes involving the Treasury Forfeiture Fund.
- The Budget also proposes a program integrity initiative to narrow the gap between taxes owed and taxes paid that is estimated to reduce the deficit by approximately \$29 billion over the next 10 years.

### The President's 2019 Budget:

The Budget capitalizes on Treasury's ongoing drive for efficiencies, and would improve stewardship of taxpayers' dollars, by focusing on the Department's core economic and financial responsibilities. The Budget prioritizes resources to combat terrorist financing, proliferation financing, and other forms of illicit finance and supports Treasury's role as chair of the Committee on Foreign Investment in the United States (CFIUS) to address current and future national security risks. In addition, the Budget maintains Treasury's mission-critical functions as the Federal Government's revenue collector, financial manager, and economic policymaker. The foundation of American prosperity rests with the people, not the Federal Government, and the Budget would ensure that taxpayers, investors, and job-creators operate in an economy that is secure, fair, and free from unnecessary bureaucratic impediments.

**Prioritizes Safeguarding Markets and Protecting Financial Data.** Treasury's Office of Terrorism and Financial Intelligence (TFI) possesses a unique set of authorities and tools to combat terrorists, rogue regimes, proliferators of weapons of mass destruction, and other illicit actors by denying their access to the financial system, disrupting their revenue streams, and degrading their capabilities. Likewise, the Financial Crimes Enforcement Network's (FinCEN) role in linking the



law enforcement and intelligence communities with financial institutions and regulators helps these entities uncover and prosecute illegal activities and money-laundering schemes. In addition, consistent with the National Security Strategy, the Budget supports Treasury's leading role as chair of the CFIUS. The Administration will work with the Congress to modernize and strengthen this essential national security tool.

The Budget requests \$159 million for TFI, a \$36 million increase from the 2017 enacted level, to continue its critical work safeguarding the financial system from abuse and combatting other national security threats using non-kinetic economic tools. These additional resources would be deployed to economically isolate North Korea, complete the Terrorist Financing Targeting Center in Saudi Arabia, and increase sanctions pressure on Iran, including through the implementation of the Countering America's Adversaries Through Sanctions Act.

The Budget requests \$118 million for FinCEN, a \$3 million increase from the 2017 enacted level, to administer the Bank Secrecy Act and focus on the prevention of terrorist financing, money laundering, and other financial crimes in new sectors and through new pathways. This increase would also enable FinCEN to further utilize its unique authorities—FinCEN would expand investigations into financial institutions that may be facilitating the illicit activities of national security threats such as North Korea, terrorist organizations, and drug trafficking organizations that are fueling the opioid crisis.

The Budget also requests \$25 million to proactively and strategically protect Treasury information technology (IT) systems that carry out these activities as well as those that account for, and process, trillions of dollars in revenue and payments against cybersecurity threats. These funds are requested in addition to bureau-level investments, and would be centrally managed to strengthen the security of Treasury's most critical IT assets and improve Treasury's response and recovery capabilities. The funds would also allow Treasury to leverage enterprise-wide services and capabilities and help the Department nimbly respond to cybersecurity incidents.

**Preserves Funding for Essential Revenue Collection Operations.** The tax reforms enacted last year were the most significant changes to the Nation's tax code in more than 30 years. They achieved the President's goals of: 1) cutting taxes for middle-income families; 2) simplifying the tax code for individuals; and 3) reducing business taxes so American employers can create jobs, raise wages for their workers, better compete with foreign businesses, and bring back money that is currently held offshore. By investing in the modernization of Internal Revenue Service (IRS) systems, the Budget would help make the implementation of tax reform successful and support the President's vision of making tax filing simpler for hardworking Americans.

The IRS collects approximately \$3.4 trillion in tax revenue annually and processes more than 246 million tax returns and forms resulting in more than \$437 billion in tax refunds. The Budget proposes \$11.1 billion in base funding for the IRS including \$2.3 billion for running key tax filing and compliance IT applications and \$110 million for IT modernization efforts. The Budget also requests additional funds for new and continuing investments to expand and strengthen the enforcement of tax law to ensure that all Americans are paying the taxes they owe. These additional investments proposed over the next 10 years are estimated to generate approximately \$44 billion in additional revenue at a cost of \$15 billion, yielding a net savings of \$29 billion over 10 years.

Approximately 90 percent of individual taxpayers file their tax returns electronically and more than 278 million taxpayers use the Where's My Refund application to check the status of their refunds rather than calling the IRS. However, for many interactions, the IRS relies on antiquated tax processing systems (many of which date back to the 1960s) and handles most of its interactions with

taxpayers, other than tax filing, through the mail. Modernizing IRS systems would allow IRS staff to have up-to-date, accurate information about taxpayer accounts when they work with taxpayers.

The Budget also includes several proposals to ensure that taxpayers comply with their obligations, that tax refunds are only paid to those taxpayers who are eligible for them, and that taxpayer dollars are protected from criminals seeking to commit fraud:

- Increasing oversight of paid tax preparers—taxpayers are increasingly turning to paid tax return preparers to assist them in meeting their tax filing obligations. Ensuring that these preparers understand the tax code would help taxpayers get higher quality service and prevent unscrupulous tax preparers from exploiting the system and vulnerable taxpayers.
- Giving the IRS the authority to correct more errors on tax returns before refunds are issued—this would keep refunds from being issued to taxpayers who are not eligible. The Budget would also allow the IRS to resolve simple issues quickly without having to direct enforcement resources away from more difficult cases.
- Requiring a valid Social Security Number for work in order to claim the Child Tax Credit and Earned Income Tax Credit—this proposal would ensure that only individuals authorized to work in the United States could claim these credits.

**Manages the Nation's Finances More Effectively.** The Bureau of the Fiscal Service (Fiscal Service) conducts all Treasury debt financing operations, provides central payment services for Federal agencies, runs Government-wide accounting and reporting services, and manages the collection of delinquent debt. In 2017, the Fiscal Service issued approximately \$8.6 trillion in marketable Treasury securities, processed the collection of more than \$4 trillion in Federal receipts, and distributed more than \$3.4 trillion in payments, including Social Security payments, IRS tax refunds, and veterans' benefits.

The Fiscal Service performs the vast majority of payment and collection transactions electronically, but in 2017, it still issued almost 60 million paper checks and collected more than \$500 billion in payments by mail or in person. The Budget supports Treasury's ongoing digitization of payments that would reduce burden and bureaucracy while increasing options and accessibility for citizens and customers to conduct transactions with the Federal Government in a secure, electronic environment.

As the Federal Government's central payment provider, the Fiscal Service is also responsible for helping agencies identify, prevent, and reduce improper payments. To improve Treasury's efforts to help agencies prevent and detect improper payments, the Budget includes administrative actions and legislative proposals that would:

- remove costly barriers to data sharing across the Government;
- allow for more cost-effective and efficient use of data sources;

#### **Doing More with Less**

The Budget proposes \$331 million for Fiscal Service operations, approximately \$100 million less than the 2010 level. This reduction is the result of the successful consolidation of two bureaus and significant administrative actions including the closing or re-purposing of two payments centers, consolidating five data centers into two, and decreasing the Bureau's footprint. During the same period, the Fiscal Service has maintained, and in many cases improved, its performance of core services and taken on a number of new Government-wide initiatives.

- provide centralized access and use of the National Directory of New Hires and the Social Security Administration's full death file;
- create a central repository for death records from Federal agencies; and
- facilitate partnerships with non-Federal partners.

The Budget also includes two legislative proposals that would help to improve these efforts by authorizing an additional mechanism to recover delinquent Federal non-tax debt and streamlining recovery of unclaimed assets owed to the United States.

**Rationalizes the Financial Regulatory Framework.** The Administration is committed to reforming the Nation's financial system and rolling back the regulatory excesses mandated by the Dodd-Frank Act, as demonstrated by Executive Order 13772, "Core Principles for Regulating the United States Financial System" (Core Principles EO).

Since issuance of the Core Principles EO in February 2017, Treasury has published several reports making numerous recommendations for administrative and statutory reforms. These reviews included evaluation of the Financial Stability Oversight Council (FSOC) and the Office of Financial Research (OFR), both established by the Dodd-Frank Act. The Budget proposes to impose appropriate congressional oversight of these functions by subjecting all Treasury FSOC and OFR activities to the normal appropriations process. The Budget reflects continued reductions in OFR spending commensurate with the renewed fiscal discipline being applied across the Federal Government. Treasury is also working to increase the transparency of FSOC decision-making procedures and to implement more rigorous cost-benefit analysis standards.

**Increases Treasury's Efficiency and Effectiveness by Streamlining Operations.** The Budget eliminates funding for the Community Development Financial Institutions (CDFI) Fund's discretionary grant and direct loan programs, a savings of \$234 million from the 2017 enacted level. The CDFI Fund was created more than 20 years ago to jump-start a now mature industry. In addition, private institutions should have ready access to the capital needed to extend credit and provide financial services to underserved communities. However, the Budget maintains funding for administrative expenses to support ongoing CDFI Fund program activities, including the New Markets Tax Credit program. The Budget also proposes to extend the CDFI Bond Guarantee Program, which offers CDFIs low-cost, long-term financing at no cost to taxpayers, as the program requires no credit subsidy.

In addition, the Budget proposes to transfer all alcohol and tobacco responsibilities from the Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) to Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB). This transfer would leverage TTB's resources and expertise relating to the alcohol and tobacco industries and allow ATF to continue to focus on its firearms and explosives mandates, enabling both agencies to more efficiently and effectively carry out their core mission of protecting the public.

The U.S. Mint and the Bureau of Engraving and Printing (BEP) are responsible for assuring that the Nation retains its status as producing the world's most accepted currency, that U.S. currency is secure against counterfeiting efforts, and that U.S. currency is produced efficiently and at the lowest cost. The Budget includes two legislative proposals that would enable BEP to lower costs and improve the security of official documents issued by States:

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- providing BEP with the authority to vacate its aging production facility, purchase land, and construct a new facility in the National Capital Region which would result in estimated 10-year savings of \$579 million in lower project costs, ultimately lowering operating costs; and
- authorizing BEP to offer its specialized printing services to States for a fee which would allow States to leverage the U.S. Government's secure document production capabilities to print birth, marriage, and death certificates. Many States want to use this technology but cannot find an American printing firm to produce the documents and are instead turning to foreign companies or lowering their security standards.

In addition, the U.S. Mint and BEP are consolidating their acquisition and sales activities to share a common sales platform and gain efficiencies from similar procurement needs and expertise.



## DEPARTMENT OF VETERANS AFFAIRS

### Highlights:

- The Department of Veterans Affairs (VA) provides veterans of the Armed Forces and their survivors with a wide variety of benefits including but not limited to healthcare, mental health services, homelessness programs, service-connected disability compensation, readjustment counseling, vocational rehabilitation, education, and home loan guaranties.
- The Budget provides resources to implement a multi-faceted strategy to modernize and transform VA to meet a growing demand for access to healthcare, improve the timeliness and effectiveness of non-medical benefit delivery, and promote internal accountability to reduce waste, fraud, and abuse.
- The Budget requests \$83.1 billion for VA, an \$8.7 billion, or 11.7-percent increase from the 2017 enacted level. In addition, \$75.6 billion is requested for advance medical care appropriations for 2020 to ensure the Department has the resources to continue providing high-quality medical services to veterans. In addition, the Budget also requests new legislative authorities and \$122.7 billion in mandatory budget authority, including \$121 billion in 2020 advance appropriations, for other veteran and survivor benefits.

### The President's 2019 Budget:

VA fulfills President Lincoln's promise to care for America's veterans, their families, and survivors—men and women who have responded when their Nation needed help. The Budget would provide the resources for the Nation to meet its obligations to those who have served in the Armed Forces. With this funding, VA would: deliver premier care through one of the largest integrated healthcare systems in the United States to approximately 9.3 million enrollees; deliver compensation benefits to approximately 4.9 million veterans and 432,000 survivors; administer pension benefits for approximately 469,000 veterans and their survivors; provide servicemember and veteran group life insurance plans to approximately six million enrollees; provide educational assistance to slightly more than 950,000 beneficiaries; manage a home mortgage program with slightly more than 3.1 million active loans,

*"As Commander-in-Chief, I will not accept substandard service for our great veterans."*

President Donald J. Trump  
March 17, 2017

guaranteed by VA; and provide memorial and burial benefits to approximately 141,000 veterans and their family members in 2019.

### ***Agency Reforms***

**Improves Veteran Experience.** The Budget focuses on four priorities to enhance veterans' quality of life and demonstrate the Administration's commitment to a better future. These priorities include: a greater focus on identifying at-risk veterans and providing them targeted interventions to prevent suicide; enhancing healthcare in the community; simplifying access to and knowledge of non-medical benefits; and implementing a new appeals framework. These objectives are essential to VA's efforts to enrich veterans' experiences and become the service provider of choice.

In addition, the Budget supports initiatives to modernize and reform VA:

- \$4.2 billion to leverage emerging technology, modernize and maintain infrastructure, and provide greater choices and benefits to veterans;
- \$172 million for the Office of the Inspector General to strengthen accountability, promote transparency, and reduce waste, fraud, and abuse; and
- in 2019 VA will continue implementing a long-term strategic plan that would further streamline service delivery, improve the efficiency of the Federal Government, and ensure that veterans are receiving the benefits they need.

### ***Veterans Health Administration***

**Improves Veterans' Access to Medical Care.** The Budget provides \$70.7 billion, a 9.6-percent increase above the 2017 enacted level, to provide high-quality healthcare services to veterans and eligible beneficiaries. The Budget also proposes \$75.6 billion in advance appropriations for VA medical care programs in 2020, a 6.9-percent increase above the 2019 request. In addition, \$11.9 billion

*"I intend to build a system that puts veterans first and allows them to get the best possible health care and services wherever they may be—in VA or in the community."*

David Shulkin  
Secretary  
February 1, 2017

would be used to enhance and expand veterans' access to high-quality community care, by consolidating multiple community care programs, including the Veterans Choice Program, into one unified program. This new program, the Veteran Coordinated Access & Rewarding Experiences program, would place the veteran and his or her physician at the center of the decision-making process and offer options for veterans to use a network of walk-in clinics for minor illnesses and injuries. Overall, the Budget is designed to improve veterans' experiences with and access to healthcare, building on the best features of VA's existing community care programs and strengthening VA's ability to furnish care in its own facilities.

**Combats the Opioid Epidemic.** Fighting the opioid epidemic is a top priority of this Administration, and VA is at the forefront of combatting this public health emergency. The Budget provides \$381 million in critical investments to reduce over-reliance on opioids for pain management and to promote the safe and effective use of opioid therapy. Funding supports multidisciplinary approaches in opioid prevention and treatment, including investments in: provider training to assess risk and manage treatment; mental health outpatient and residential treatment programs; opioid

overdose, recognition, rescue and response training programs; medication assisted therapy for opioid use disorders; patient advocacy; and distribution of naloxone kits.

**Provides Critical Funding for Mental Health and Suicide Prevention.** The Budget provides slightly more than \$8.6 billion to expand and transform VA's focus on mental health services to ensure veterans receive timely and appropriate care that is tailored to the unique needs of each person. As part of its effort, VA is focusing on earlier identification and intervention for at-risk veterans to link them with the health services they need. VA would also continue to provide emergent mental healthcare treatment for veterans with other-than-honorable discharges. Suicide prevention is VA's number one clinical priority, and the Budget supports VA's efforts across five key domains: improve transition; know all veterans; partner across communities; reduce easy access to dangerous substances and objects; and improve access to care.

**Continues Efforts to End Veteran Homelessness.** The Budget supports VA's commitment to ending veteran homelessness by sustaining funding levels and providing opportunities to improve the targeting of intervention for veterans impacted by homelessness. Specifically, the Budget requests \$1.8 billion for veteran homelessness programs including Supportive Services for Veteran Families and VA's component of the Department of Housing and Urban Development—VA Supportive Housing Program. These programs provide critical wrap-around care to help address and prevent veteran homelessness.

### ***Veterans Benefits Administration and Board of Veterans Appeals***

**Streamlines Delivery of Veteran Benefits.** VA provides veterans and eligible dependents with benefits including disability compensation, pension, GI Bill, educational assistance, vocational rehabilitation, and home loan guaranties among others. The Budget invests \$2.9 billion, a 1-percent increase from the 2017 enacted level for these programs. These benefits directly support the economic security of veterans and their families, and reflect a greater commitment to a better future.

**Modernizes the Claims Appeals Process.** Of the amount requested, \$183.5 million is for the Board of Veterans Appeals and related information technology (IT) initiatives to enhance ongoing efforts to reduce the pending appeals inventory and modernize VA's appeal process by establishing a new framework that is designed to provide quicker decisions on appeals for the veteran. The new framework would provide veterans with choices to obtain resolution of their appeals based on the option that best serves the individual veteran's circumstances. The new options are designed to improve the timeliness of appeals decisions.

*"This is about making benefits work better for veterans and transforming the Department of Veterans Affairs to do better for years, and for generations [of] future veterans."*

David Shulkin  
Secretary  
November 6, 2017

**Enhances and Expands Access to Post-9/11 GI Bill Education Benefits.** The Budget complements and supports continued implementation of the Harry W. Colmery Veterans Educational Assistance Act of 2017 (the "Forever GI Bill") which represents one of the most sweeping changes to the Post-9/11 GI Bill since its inception, expanding access to veterans and eligible dependents. In addition to the benefit payments, requested funding would also fund IT investments to effectively implement all provisions of the new law.

### ***National Cemetery Administration***

**Increases Access to Burial and Memorial Benefits.** The Budget includes \$315.8 million, a 10.4-percent increase from the 2017 enacted level, to expand veteran access to memorial benefits, deliver premier service to veterans' families, and provide perpetual care for slightly more than 3.8 million gravesites. The National Cemetery Administration consistently receives high satisfaction ratings from veterans and their families for the care of VA cemeteries as National Shrines. In addition to sustaining 139 cemeteries and 33 other sites, the Budget supports the initial activation of nine new cemeteries in California, Idaho, Indiana, Maine, New York (two), North Dakota, Wisconsin, and Wyoming. In 2019, VA anticipates providing slightly more than 141,000 interments for veterans and family members.

### ***Infrastructure Revitalization***

**Provides Critical Funding for Construction and Modernization of VA Facilities.** The Budget provides \$1.8 billion for 91 major and minor construction projects including new medical care facilities, national cemeteries, and projects at regional offices. The Budget also provides \$1.4 billion for non-recurring maintenance projects to maintain and modernize medical facilities. These investments enhance the safety and security of VA facilities and help VA programs and services keep pace with modern technologies.

- Approximately \$1.1 billion funds major construction projects, including construction of a community living center and domiciliary at Canandaigua, New York; construction of a facility that would specialize in spinal cord injuries at Dallas, Texas; and expansion of four national cemeteries that would provide slightly more than 80,000 new gravesites. This funding also includes \$400 million to address critical seismic issues at VA facilities.
- In addition, \$707 million funds minor construction projects, including corrections and additions to Veterans Health Administration facilities, gravesite expansions at national cemeteries, and renovations at regional offices.
- VA would use the \$1.4 billion in funding for non-recurring maintenance to address infrastructure needs in its medical facilities.

**Invests in IT Infrastructure to Improve Services.** The Budget provides \$4.2 billion for the Office of Information Technology. Of this amount, \$204 million would support recapitalizing VA's legacy IT systems with new enterprise and business-line specific IT solutions to better support veteran focused initiatives. These investments are essential to better integrate processes, adopt modern technology solutions, improve security, and reduce long-term sustainment costs. In support of VA's goal to provide a comprehensive source to simplify veterans' access to and understanding of their benefits and services available to them, the Budget includes funding for a Navigator interface to navigate veterans to those entities best equipped to meet their needs. In addition to the amount requested for enterprise-wide IT infrastructure enhancements, \$1.2 billion is included in a separate budget account for the acquisition of a replacement Electronic Health Records system. This is a substantive investment for this critical initiative, which would help facilitate a seamless transition for servicemembers as they leave the Armed Forces.





## CORPS OF ENGINEERS—CIVIL WORKS

### Highlights:

- The Army Corps of Engineers civil works program (Corps) develops, manages, restores, and protects water resources primarily through the construction, operation and maintenance, and study of water-related infrastructure projects. The Corps is also responsible for regulating development on navigable waters of the United States and works with other Federal agencies to help communities respond to and recover from floods and other natural disasters.
- The Budget focuses Federal investment where it is most warranted. The Budget also proposes reforms to how the Nation invests in water resources projects, reducing the reliance on Federal funding and control and providing States and local government, as well as the private sector, more flexibility to make investments they deem a priority.
- The Budget requests \$4.8 billion for the Corps, a more than 20-percent decrease from the 2017 enacted level.

### The President's 2019 Budget:

The Corps has three main missions: flood and storm damage reduction; commercial navigation; and aquatic ecosystem restoration. The Corps also regulates development in navigable waters and wetlands. While the Agency has had a significant impact on water resources development throughout its history, current approaches to funding, constructing, and maintaining projects are not delivering benefits in either a timely or cost effective manner. The current paradigm for investing in water resources development is not sustainable; it can deter rather than enable local communities, States, and the private sector from making important investments on their own, even when they are the primary beneficiaries. The Budget supports the Administration's infrastructure proposal and lays the groundwork for: modernizing the Nation's approach to water resources; broadening the pool of capital for infrastructure investments; reducing bureaucratic red tape; and empowering State, local, and private decision-making. The Budget does this by focusing Federal investment where it is most warranted and proposing reforms to provide States and communities greater flexibility to make the investments that they deem priorities.

### ***Provides Accountability to the American Taxpayer***

**Emphasizes Investments in Ongoing Construction of Projects with High Economic or Environmental Returns while Addressing Public Safety.** The Budget keeps the Federal Government's promise to complete ongoing construction projects, which provide a high return to the Nation or address a significant risk to public safety, more quickly and cost effectively. By proposing to not start any new construction projects, the Budget enables the Corps to focus on completing these ongoing priority projects faster for less cost, allowing the affected communities to see their benefits sooner. The Budget also recognizes the need for a change in the way future construction investments are funded, with less reliance on Federal appropriations. For example, the Budget proposes to accelerate repairs of the Herbert Hoover Dike through an innovative partnership between the Federal Government and the State of Florida using a combination of appropriations from the Federal Government and the State of Florida.

**Prioritizes Operating and Maintaining Existing Infrastructure.** The Budget gives priority to operating and maintaining existing infrastructure, improving its reliability, and improving its resilience to cyber-related attacks. Maintenance of key infrastructure is funded; this includes navigation channels that serve the Nation's largest coastal ports and the inland waterways with the most commercial use, such as the Mississippi and Ohio Rivers, and the Illinois Waterway.

**Increases Transparency for the American Taxpayer.** The Budget establishes clear priorities based on objective criteria for investment decisions. This approach ensures the best overall use of available funds and allows the American taxpayer to understand how Federal resources are allocated. For example, the Budget begins to fund dam safety studies and dredged materials disposal plans within the investigations account where they appropriately belong. The Budget also classifies the Poplar Island project, which serves as the primary dredged material disposal site for the Port of Baltimore, as a navigation project. The Administration believes new Federal investment decisions should be clearly identified by both the Administration and the Congress before funds are spent. Consistent with this approach, the Budget does not propose any new starts. In addition, the Budget proposes revisions to the appropriations language for the Construction, Operations and Maintenance, and Mississippi River and Tributaries accounts and the Harbor Maintenance and Inland Waterways Trust Funds to enable greater transparency in how these funds are spent.

### ***Promotes American Economic Prosperity***

**Reforms Inland Waterways Funding.** The Budget proposes to reform the laws governing the Inland Waterways Trust Fund, including an annual per vessel fee for commercial users, to help finance future capital investments on these waterways and a portion of the cost of operating and maintaining them. The current diesel fuel tax is insufficient to support the users' share of these costs.

### ***Increases Flexibility for State and Local Communities to Make Investment Decisions***

**Reduces the Harbor Maintenance Tax.** The Budget proposes to reduce the Harbor Maintenance Tax as a step toward providing ports greater flexibility to finance their capital and operating costs on their own. By reducing the tax burden on users of ports, ports would have greater flexibility to determine appropriate fees for services they provide, in order to help finance their operations.

**Divests the Washington Aqueduct.** The Budget proposes to sell the Washington Aqueduct, the wholesale water supply system for Washington, District of Columbia; Arlington County, Virginia; the City of Falls Church, Virginia; and parts of Fairfax County, Virginia. The Corps owns and operates the Aqueduct, which is the only local water supply system in the Nation owned and operated by the Corps. Ownership of local water supply is best carried out by State or local government or the private

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sector, where there are appropriate market and regulatory incentives. Selling the Aqueduct to a public or private utility would contribute to American economic prosperity through a more efficient allocation of economic resources.



## ENVIRONMENTAL PROTECTION AGENCY

### Highlights:

- The Environmental Protection Agency (EPA) is responsible for implementing and enforcing statutes designed to protect human health and the environment.
- The Budget continues the Agency's work to protect the air, land, and water from pollution, while reducing and eliminating lower priority activities and voluntary programs. Focusing on the core mission supports overall efforts to restrain Federal spending and promote operational efficiencies that enhance the Agency's performance.
- The Budget requests \$5.4 billion for EPA, a \$2.8 billion or 34-percent decrease from the 2017 enacted level.

### The President's 2019 Budget:

Environmental protection and public health are key to U.S. prosperity and essential to America's quality of life. EPA was created in 1970 to consolidate into one agency the Federal Government's activities to protect human health and the environment. Through cooperative federalism, EPA works with States and Tribes, as well as local governments, businesses, and the public to protect clean air, water, and land.

Since its creation, the work of EPA and its partners has led to significant reductions in the risks from pollution and has helped to meaningfully improve the lives of all Americans:

- emissions of the major air pollutants identified in the Clean Air Act of 1970 have decreased by 70 percent;
- approximately 90 percent of the U.S. population served by community water systems receives drinking water that meets all applicable water quality standards; and
- more than 2,700 of the most contaminated Superfund and other hazardous waste sites have a remedy in place to reduce human exposure to hazardous substances.

In recognition of the significant environmental and public health gains that have already been made, the Budget would maintain key environmental achievements while furthering work in core mission areas. EPA would continue to invest in protecting the air, land, and water as well as address exposure to toxic chemicals.

### **EPA Answers the Call to Action**

In 2017, faced simultaneously with three major hurricanes, a tropical storm, and major wildfires spanning over eight States and two Territories, EPA provided crucial front line support to its Federal, State, territorial, and tribal partners by:

- evaluating slightly more than 6,300 drinking water systems and close to 500 wastewater systems;
- assessing approximately 250 Superfund sites and 1,700 oil and chemical facilities;
- providing technical assistance as needed to damaged facilities;
- responding to approximately 275 spills and recovering more than 2,000 vessels and 48,600 orphaned containers;
- advising on waste management and debris disposal mechanisms; and
- utilizing its laboratory network, along with specialized equipment such as the Airborne Spectral Photometric Environmental Collection Technology airplane and Trace Atmospheric Gas Analyzer mobile laboratories to monitor the air and water quality in the affected communities.

EPA's support delivered vital data on the potential risks and hazards to first responders and the public.

To achieve these goals, the Budget continues to propose a number of strategic reforms. The Budget eliminates many voluntary and lower priority activities and programs, and invests in process improvements and other operational enhancements to bring greater efficiency and cost-effectiveness to the work of the Agency. EPA is also in the midst of implementing sweeping regulatory reforms. The President's Executive Orders 13771, "Reducing Regulation and Controlling Regulatory Costs," and 13783, "Promoting Energy Independence and Economic Growth," are guiding the Agency to find new approaches to protecting the environment and human health while also ensuring consideration of economic security, as consistent with law. As EPA continues to focus on its fundamental responsibilities, and strengthens its relationships with States and Tribes on the implementation of Federal environmental laws, there is an opportunity to reshape the Agency's workforce, ensuring that EPA operates efficiently while maintaining critical skills and expertise.

**Empowers State Environmental Priority-Setting.** States are the primary implementers of many Federal environmental statutes and critical partners in protecting the Nation's environment and human health. States have long sought flexibility to direct grant resources to their individual priorities, rather than receiving funding only through grants dedicated to specific programs. The Budget recognizes and responds to this need by providing \$27 million for "Multipurpose Grants" within EPA's Categorical Grant portfolio totaling \$597 million. States would be able

to spend this funding on any statutorily mandated delegated duty. This proposal would enable each State to set its own environmental priorities and quickly respond to new threats as they arise.

**Invests in Water Infrastructure Construction, Repair, and Replacement.** The Budget funds water infrastructure through the State Revolving Funds and the Water Infrastructure Finance and Innovation Act (WIFIA) credit program. The 2019 capitalization of the State Revolving Funds would supplement the approximately \$80 billion currently revolving at the State level; in addition, the WIFIA credit subsidy would support more than \$1 billion in direct loans, resulting in more than \$2 billion in total investment. These resources would complement State and local drinking water and wastewater infrastructure investments as well as funding provided through other Federal channels, including the President's Infrastructure Initiative.

**Accelerates the Clean Up of the Nation's Most Complex Hazardous Waste Sites.** The Budget provides \$762 million for the Hazardous Substance Superfund Account to address the release of hazardous substances and the clean up of hazardous waste sites. The Budget also supports the recommendations made in EPA's Superfund Task Force Report to identify impediments to expeditious

clean up at sites with significant exposure risks and to bring more private funding to the table for redevelopment. Revitalizing contaminated land improves the quality of life for communities around the United States and is part of EPA's core mission.

**Enhances Monitoring of America's Significant Watersheds.** The Budget funds programs to measure and assess the health of the Great Lakes and Chesapeake Bay. These watersheds require coordination and collaboration among numerous States, Tribes, and local governments. In the case of the Great Lakes, international coordination with Canada is also necessary. Effective coordination and collaboration among these stakeholders relies on accurate and continuous data. The Budget provides funds to support basin-wide monitoring in these watersheds, which would assist decision-making on health and economic issues including harmful algal blooms and invasive species management. The Budget also supports cooperative federalism by building State and local capacity to conduct monitoring, while recognizing that the primary responsibility for local ecosystem restoration rests with States and local groups.

**Ensures Consistent Enforcement and Enhanced Compliance Assistance.** The Budget continues to concentrate EPA's enforcement objectives on programs that are not delegated to State, local, and tribal partners. EPA will work with partners to maintain a consistent and effective enforcement program to avoid duplication and give the regulated community an even playing field for conducting business. To specifically assist the oil and chemical industries in their compliance with EPA regulations, the Budget proposes to institute a voluntary fee that can be paid by a facility to have EPA provide on-site compliance assistance.

**Strengthens Protections from Toxic Chemicals.** In 2016, the Congress passed the Frank R. Lautenberg Chemical Safety for the 21<sup>st</sup> Century Act to modernize the Toxic Substances Control Act (TSCA). TSCA, as amended, requires EPA to make an affirmative finding of safety on all new chemicals introduced into commerce. EPA must also prioritize and evaluate existing chemicals in commerce and manage chemicals when EPA finds they do not to meet safety standards that are in place to protect people and the environment from unreasonable risks. In 2019, EPA will continue to set up new protocols to implement the modernized TSCA and evaluate the risks of new and existing chemicals in commerce as part of the Agency's commitment to provide for the safety and security of all Americans.

**Fee-Funds the Popular ENERGY STAR Program.** ENERGY STAR is a trusted resource for consumers and businesses that want to purchase products that save them money and help protect the environment. The Budget includes a proposal to authorize EPA to administer the ENERGY STAR program through the collection of user fees. Product manufacturers that seek to label their products

### **Restoring the Land to Productive Use**

The Budget prioritizes funding for Brownfields site assessment grants in order to accelerate investment in local communities. The EPA Brownfields program provides competitive grants to local communities to address sites where redevelopment is challenged by the presence or potential presence of contamination. EPA's Brownfields program site assessment grants provide useful information to communities about the extent of contamination at a property. Real estate developers use this information to estimate future clean-up costs and to plan for redevelopment of the property. EPA Brownfields grantees report that approximately 30 percent of brownfield properties that are assessed using EPA Brownfields funding do not require remediation for the intended reuse of the property; although, in some cases, institutional controls may be required. Finding that remediation is not necessary for the intended reuse of the site means faster redevelopment and the return of the property to productive use.

under the program would pay a modest fee to support EPA's work to set voluntary energy efficiency standards and to process applications. Fee collections would begin after EPA undertakes a rulemaking process to determine which products would be covered by fees and the level of fees, and to ensure that a fee system would not discourage manufacturers from participating in the program or result in a loss of environmental benefits.

**Reinforces Emergency Preparedness and Response Capabilities.** The 2017 hurricane season reminded the Administration of how important it is for all levels of government to be ready to assist residents in the face of natural disasters. EPA plays a critical role in this capacity, providing technical assistance to drinking water and waste water utilities, responding to the release of hazardous substances, and advising on disease vector control and waste disposal. The Budget further supports EPA's efforts by providing \$6 million to the Critical Infrastructure Protection program and \$45 million for key emergency response equipment and training under the Homeland Security Preparedness Response & Recovery program. Protecting the safety and security of the American people is a Federal priority that ensures a prosperous Nation.

**Invests in Cutting-Edge Research and Development for American Prosperity and a Better Future.** The Budget provides \$246 million for EPA to continue to perform research and development activities in support of core mission areas, focusing on air quality, water resources, sustainable communities, chemical safety, and human health risk assessment. These interdisciplinary research programs would apply the best available science to address current and future environmental hazards, develop new approaches, and improve the scientific foundation for making environmental protection decisions. The Agency will strengthen the alignment of its research resources to support EPA programs, regions, States, and Tribes with the goal of improving America's collective quality of life and preserving the health of the environment for future generations.

**Refocuses the Agency on Core Activities.** As part of the Administration's initiative to refocus EPA on its core mission, the President's Budget continues to eliminate funding for lower priority programs, programs that have duplicative functions with other agencies, activities that can be absorbed into other functions, and responsibilities that should be primarily for State and local governments. Examples of program eliminations include: the Climate Change Research and Partnership Programs; the Indoor Air and Radon Programs; the Marine Pollution and National Estuary Programs; the Environmental Education Program; and the Beaches Program. Total savings from eliminated EPA programs and activities would save taxpayers approximately \$600 million compared to 2017 enacted levels.



## NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

### Highlights:

- The National Aeronautics and Space Administration (NASA) is responsible for leading an innovative and sustainable program of exploration with commercial and international partners to enable human expansion across the solar system and bring new knowledge and opportunities back to Earth. As it pioneers the space frontier, NASA supports growth of the Nation's economy in space, increases understanding of the universe and our place in it, works with industry to improve America's aerospace technologies, and advances American leadership.
- The Budget supports the Administration's new space exploration policy by refocusing existing NASA activities toward exploration, by redirecting funding to innovative new programs that support the new policy, and by providing additional funding to support new public-private initiatives.
- The Budget requests a total of \$19.6 billion for NASA, a \$500 million (2.6-percent) increase from the 2018 Budget (\$61 million below NASA's 2017 funding level).
- The Budget proposes to end direct U.S. Government funding for the space station by 2025 and provides \$150 million to begin a program that would encourage commercial development of capabilities that NASA can use in its place.
- The Budget refocuses and consolidates NASA's space technology development programs to support space exploration activities.
- The Budget continues strong programs in science and aeronautics, including a supersonic "X-plane," planetary defense from hazardous asteroids, and potentially a bold mission to retrieve pieces of Mars for scientific study on Earth.

### The President's 2019 Budget:

The Budget supports an innovative and sustainable program of exploration with commercial and international partners to enable the return of humans to the Moon for long-term exploration and utilization, followed by human missions to Mars and other destinations. As it pioneers the space frontier, NASA supports growth of the Nation's space economy, increases understanding of the universe and America's place in it, and advances America's aerospace technology.



*"The directive I'm signing today will refocus America's space program on human exploration and discovery. It marks an important step in returning American astronauts to the Moon for the first time since 1972 for long-term exploration and use. This time, we will not only plant our flag and leave our footprints, we will establish a foundation for an eventual mission to Mars. And perhaps, someday, to many worlds beyond."*

President Donald J. Trump  
November 11, 2017

The Budget takes concrete actions to once again launch Americans into space from American soil. The Budget partners with industry to land robotic missions on the surface of the Moon in the next few years, paving the way for a return of U.S. astronauts—this time not just to visit, but to lay the foundation for further journeys of exploration and the expansion of the U.S. economy into space. The Budget supports a sustainable space exploration program to be proud of—one that reflects American ingenuity, ambition, and leadership. Specifically, the Budget:

**Renews Focus on Human Exploration and Discovery and Expands Commercial Partnerships to Strengthen U.S. Leadership in Space.** The Budget provides \$10 billion to support human space exploration and to pursue a campaign that would establish U.S. preeminence to, around, and on the Moon.

This would be achieved through a renewed focus on new approaches and industrial partners, and by pursuing near-term milestones for lunar exploration, such as the commercial launch of a key power and propulsion space tug in 2022. A new lunar robotic exploration program would support innovative approaches to achieve human and science exploration goals. This new program would fund contracts for transportation services and the development of small rovers and instruments to meet lunar science and exploration needs. The Budget also supports the creation of a new Exploration Research and Technology program to enable lower-cost technology and systems needed to sustainably return humans to the Moon and beyond. In addition, the Budget fully funds the Space Launch System (SLS) rocket and Orion crew capsule as key elements of the human space exploration program. The Budget provides \$3.7 billion for SLS and Orion, which would keep the programs on track for a test launch by 2020 and a first crewed launch around the Moon by 2023.

**Provides Cost Savings by Phasing out Government Programs and Replacing them with Commercial or Public-Private Operations.** The Budget proposes to end direct U.S. financial support for the International Space Station in 2025, after which NASA would rely on commercial partners for its low Earth orbit research and technology demonstration requirements. A new \$150 million program would begin support for commercial partners to encourage development of capabilities that the private sector and NASA can use. The Budget also proposes a transition away from NASA's current Government-owned and operated fleet of communications satellites and associated ground stations. Instead, the Budget proposes a greater reliance on commercial communications satellite capabilities. The Budget also proposes canceling, pending an independent review, an over-budget project to upgrade the current NASA-owned system in order to make resources available for these new partnerships.

**Continues Robotic Exploration of the Solar System.** The Budget provides \$2.2 billion to Planetary Science and maintains support for competed science missions and the next Mars rover, which would launch in 2020. The Budget also provides \$50 million to explore possibilities for retrieving geologic samples from Mars, which has long been a high priority science goal and a keystone of future Mars exploration. A \$150 million planetary defense program would help protect the Earth from potentially hazardous asteroids.

**Fully Funds an Experimental Supersonic Airplane and Increases Hypersonics Research Funding.** The Budget fully funds the Low-Boom Flight Demonstrator, an experimental supersonic

(faster than the speed of sound) airplane that would make its first flight in 2021. This “X-plane” would open a new market for U.S. companies to build faster commercial airliners, creating jobs and cutting cross-country flight times in half. The Budget also increases funding for research on flight at speeds more than five times the speed of sound, commonly referred to as hypersonics. Hypersonics research is critical to understanding how crewed and robotic spacecraft can safely enter and exit the atmospheres of planets. Hypersonics also has applications for national defense.

**Supports a Focused Earth Science Program.** The Budget provides \$1.8 billion for a focused, balanced Earth Science portfolio that supports the priorities of the science and applications communities. The Budget maintains the Nation’s 45-year record of space-based land imagery by funding Landsat 9 and a Sustainable Land Imaging program. The Budget maintains the Administration’s previous termination of five Earth Science missions—PACE, OCO-3, RBI, DSCOVR Earth-viewing instruments, and CLARREO Pathfinder—to achieve savings.

**Terminates a New Space Telescope while Increasing Support for other Astrophysics Priorities.** The Budget terminates development of the WFIRST space telescope, which was not executable within its previous budget and would have required a significant funding increase in 2019 and future years. The Budget redirects funding from this mission to competed research including smaller, principal-investigator-led astrophysics missions. These missions have a history of providing high scientific impact while training the next generation of scientists and engineers. The Budget continues to fund the \$8.8 billion James Webb Space Telescope, which is expected to launch in 2019 and operate for many years to come.

**Redirects Education Funding to Higher Priorities.** The Budget continues to support the termination of the \$100 million Office of Education, redirecting those funds to NASA’s core mission of exploration. The Science Activation program within the Science Mission Directorate—a focused, science-driven program with clear objectives, evaluation strategies, and strong partnerships—is retained.

**Supports the Technology Demonstration of In-Space Robotic Manufacturing and Assembly.** The Budget provides \$54.2 million for public-private partnerships to demonstrate new technologies used to build large structures in a space environment. Such structures could be key to supporting future exploration and commercial space activities.

*“American companies are on the cutting edge of space technology, and they’re developing new rockets, spaceships, and satellites that will take us further into space, faster than ever before. Like the railroads that brought American explorers, entrepreneurs, and settlers to tame the Wild West, these groundbreaking new technologies will open untold opportunities to extend the range of American action and values into the new worlds of outer space. And by fostering much stronger partnerships between the Federal Government and the realm of industry, and bringing the full force of our national interest to bear, American leadership in space will be assured.”*

Vice President Michael R. Pence  
October 5, 2017



## SMALL BUSINESS ADMINISTRATION

### Highlights:

- The Small Business Administration (SBA) ensures that America's small business owners have the tools and resources needed to start and develop their operations, drive U.S. competitiveness, and help grow the economy. The President is committed to seeing that small businesses succeed by promoting responsible policies that produce economic growth while simultaneously reducing the regulatory and tax burdens that can impede their development.
- The Budget leverages today's strong market conditions to enable SBA to fulfill its core mission while ensuring that its operations represent the most prudent use of taxpayer dollars. The Budget introduces counter-cyclical policies in SBA's business loan guarantee programs and updates fee structures to ensure that during positive economic times, SBA is not supplanting private sector lending or creating excess risk for the Government.
- The Budget requests \$834 million in new budget authority for 2019, a \$53 million or 5.9-percent decrease from the 2017 enacted level. This request is offset by changes to existing fee structures across SBA's business loan guarantee programs and the elimination of unspent funds from prior years, resulting in a net request of \$629 million.

### The President's 2019 Budget:

America's 30 million small businesses play a critical role in job creation and retention. SBA's assistance to those firms and entrepreneurs help drive a robust U.S. economy and promote economic security. SBA achieves this through a variety of programs, from promoting access to capital and Federal contracting, to business counseling and disaster assistance. Small businesses account for more than 57 million jobs, and create two out of three net new jobs each year in the United States. As more than half of all Americans are either employed by or own a small business, SBA works to ensure that each day more Americans have the opportunity to start, scale, and succeed in businesses of their own. With this as its mission, SBA is uniquely positioned to deliver on two of the President's top priorities—job creation and economic growth. The Budget supports these priorities by assisting small business owners and entrepreneurs with securing access to capital and by providing counseling and training services, while ensuring that it does not supplant activities better provided by the private sector.

**Promotes Access to Affordable Capital for American Entrepreneurs.** The Budget supports \$43 billion in business loans that would help America's small business owners access affordable

capital to start or expand their businesses. Through its variety of business loan programs, SBA helps expand private lending to small business owners that cannot attain it elsewhere. These programs support financing for an array of purposes, from general business operations to fixed assets and venture capital investments in small businesses.

**U.S. Small Businesses at a Glance:**

**Economic engines.** The United States is home to 29.6 million small businesses, 99.9 percent of all U.S. businesses.

**Job creators.** Small businesses employ 57.9 million (47.8 percent of the labor force) and each year create 1.4 million net new jobs.

**Major exporters.** Small businesses represent 97.7 percent of U.S. exporters.

**Opening opportunity.** Lending to women-owned businesses by SBA totaled more than \$8.5 billion in 2017, an increase of approximately \$575 million from the prior year.

**Levels the Playing Field with Private Sector Small Business Lending.** SBA fills a critical void in the market when economic shocks reduce traditional lending to small businesses and when the private market is unwilling to provide capital to credit-worthy borrowers. However, during prosperous economic times such as these, the Budget proposes that SBA introduce counter-cyclical policies to its business loan guarantee programs that enables it to maintain its operations while ensuring that it is not displacing direct private lending. Through an adjustment of fees across its business loan guarantee programs, SBA would cover both its anticipated lending and operational costs, leveling the playing field among its lender community while operating at zero cost to the taxpayer.

**Targets Support for the Smallest of Small Businesses and Startups.** Through its 7(m) Direct Microloan program, SBA supports low-interest financing for non-profit intermediaries that in turn provide loans of up to \$50,000 to rising entrepreneurs. In addition to the \$25 million in technical assistance grant funds requested for the Microloan program, the Budget requests \$4 million in subsidy resources to support \$42 million in direct lending.

**Assists Businesses and Homeowners in the Direct Aftermath of Disaster.** SBA provides affordable, accessible, and immediate disaster assistance to those hardest hit when disaster strikes. The Budget supports more than \$1 billion in disaster relief lending to businesses, homeowners, renters, and property owners to help American communities recover quickly in the wake of declared disasters.

**Optimizes How Support is Delivered to Business Owners and Entrepreneurs.** The Budget requests \$110 million for the Small Business Development Center program, which delivers a variety of services to small businesses and prospective business owners across U.S. cities and counties. The Budget also proposes the creation of a competitive set-aside within the program that would reward those centers that most efficiently utilize their resources and provide innovative methods to help entrepreneurs.

**Opens Opportunities for Businesses in the Underserved Market.** In 2019, SBA will continue to focus on socially and economically disadvantaged communities in emerging markets. For example, SBA's 7(j) Management and Technical Assistance Program would revitalize its mission through the

*"Small business owners embody the American pioneering spirit and remind us that determination can turn aspiration into achievement...America's small business owners transform ideas into reality. They are a strong testament to the opportunities a market economy affords."*

President Donald J. Trump  
April 28, 2017

development and integration of new, innovative consulting solutions tailored to individual community needs and local business goals.

**Emphasizes Equal Opportunity and Representation in the Marketplace.** Through its diverse set of entrepreneurial training programs, SBA will continue reaching women, veterans, minority communities, rural business owners, and entrepreneurs in historically underutilized business zones in order to ensure that all Americans have an equal opportunity to succeed when it comes to starting, scaling, and operating a small business. These include supported investments in advising and mentoring programs such as SCORE, Women's Business Centers, and Veterans Outreach. These programs complement SBA's ongoing efforts to remove barriers that underserved populations, including women, face in accessing the capital necessary to start, grow, and expand their businesses.

*"The mission of the SBA is to help small businesses grow, create jobs and help our economy thrive...I want to get to know small business owners and entrepreneurs across America and learn about the obstacles they face while growing a business. I also want to encourage entrepreneurs to tap into SBA resources for start-up and growth solutions."*

Linda McMahon  
Administrator  
June 21, 2017

**Helps Small Businesses Gain Access to Federal Contracts and Research Opportunities.** Small business contracts represent the largest form of direct monetary support for small businesses in the Federal Government. Through its 8(a) business development and set-aside contracting programs, SBA leads Federal efforts to deliver 23 percent of contracts to small businesses. This includes set-asides of five percent for women-owned and small, disadvantaged 8(a) businesses and three percent set-asides for historically underutilized business zones and service-disabled veteran-owned small businesses. In 2019, SBA would also continue fostering high-tech innovation among small businesses by awarding highly competitive funding agreements through its Small Business Innovation Research program.

**Enables SBA to Advocate on Behalf of American Small Business Owners.** The Budget requests \$9.1 million for SBA's Office of Advocacy. Through this Office, SBA is positioned to encourage and educate stakeholders and the public on policies that support the development and growth of American small businesses. The Budget accomplishes this by intervening early in Federal agencies' regulatory development processes, and serving as a liaison between them and the small business community to explain and expand on issues of concern.

**Underscores Responsibility and Transparency of SBA's Practices.** The Budget requests \$21.9 million for SBA's Office of the Inspector General (OIG) to provide auditing and investigative services to support and assist SBA in achieving its mission. As with all Federal lending and contracting programs, SBA faces challenges such as improper payments and losses from defaulted loans. The OIG plays a critical role in addressing these and identifying actions to deter and detect waste, fraud, and abuse.

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# Summary Tables

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BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-1. Budget Totals <sup>1</sup>**  
 (In billions of dollars and as a percent of GDP)

	Totals													
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019- 2023	2019- 2028
<b>Budget Totals in Billions of Dollars:</b>														
Receipts .....	3,316	3,340	3,422	3,609	3,838	4,089	4,386	4,675	4,946	5,231	5,506	5,818	19,344	45,520
Outlays .....	3,982	4,214	4,407	4,596	4,754	4,941	5,160	5,348	5,526	5,748	5,955	6,181	23,858	52,615
Deficit .....	665	873	984	987	916	852	774	672	579	517	450	363	4,513	7,095
Debt held by the public .....	14,665	15,790	16,872	17,947	18,950	19,946	20,809	21,495	22,137	22,703	23,194	23,684		
Gross domestic product (GDP) .....	19,177	20,029	21,003	22,069	23,194	24,369	25,605	26,900	28,253	29,647	31,089	32,602		
<b>Budget Totals as a Percent of GDP:</b>														
Receipts .....	17.3%	16.7%	16.3%	16.4%	16.5%	16.8%	17.1%	17.4%	17.5%	17.6%	17.7%	17.8%	16.6%	17.1%
Outlays .....	20.8%	21.0%	21.0%	20.8%	20.5%	20.3%	20.2%	19.9%	19.6%	19.4%	19.2%	19.0%	20.5%	20.0%
Deficit .....	3.5%	4.4%	4.7%	4.5%	3.9%	3.5%	3.0%	2.5%	2.1%	1.7%	1.4%	1.1%	3.9%	2.8%
Debt held by the public .....	76.5%	78.8%	80.3%	81.3%	81.7%	81.9%	81.3%	79.9%	78.4%	76.6%	74.6%	72.6%		

<sup>1</sup> Outlays and deficits are standardized to 12 monthly benefit payments, as shown on Table S-4.

**Table S-2. Effect of Budget Proposals on Projected Deficits**

(Deficit increases (+) or decreases (-) in billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals			
													2019-2028	2019-2028		
<b>Projected deficits in the pre-policy baseline <sup>1</sup></b> .....	665	870	969	1,049	1,103	1,115	1,109	1,123	1,136	1,242	1,316	1,378	5,345	11,540		
Percent of GDP .....	3.5%	4.3%	4.6%	4.8%	4.8%	4.6%	4.4%	4.2%	4.1%	4.3%	4.3%	4.3%	4.3%	4.3%		
<b>Proposals in the 2019 Budget:</b>																
<b>Changes to mandatory spending and receipts:</b>																
Repeal and replace Obamacare .....				3	23	-27	-41	-56	-73	-92	-113	-137	-161	-98	-675	
Support at least \$1 trillion in private/public infrastructure investment .....				45	11	18	25	31	29	20	12	5	2	130	199	
Provide paid parental leave .....				1	1	2	2	2	2	2	2	2	3	7	19	
Reform the welfare system .....				-21	-23	-25	-25	-27	-27	-27	-29	-29	-28	-123	-263	
Reform Federal student loans .....				-6	-12	-16	-19	-22	-24	-25	-26	-27	-27	-75	-203	
Reduce improper payments Government-wide .....				*	-1	-2	-3	-6	-6	-12	-22	-40	-59	-11	-151	
Reform disability programs .....				-1	-2	-2	-2	-2	-5	-8	-12	-17	-22	-9	-72	
Reform retirement and health benefits for Federal employees .....				-3	-1	-4	-5	-6	-8	-9	-10	-11	-12	-18	-68	
Limit Farm Bill subsidies and make other agricultural reforms .....				-1	-4	-5	-6	-6	-7	-7	-7	-7	-7	-7	-58	
Eliminate wasteful spending in Medicare and improve drug pricing and payment policies <sup>2</sup> .....				-2	-11	-16	-22	-26	-26	-29	-32	-34	-38	-77	-236	
Other spending reductions and program reforms <sup>3</sup> .....		5	4	-13	-15	-11	-18	-22	-11	-56	-61	-68	-60	-278		
Total, changes to mandatory spending and receipts .....		5	10	-30	-92	-108	-135	-166	-197	-292	-355	-419	-356	-1,786		
<b>Reprioritize discretionary spending:</b>																
Eliminate the defense sequester and raise the cap on defense discretionary spending .....				32	43	66	76	82	84	85	86	86	85	350	777	
Reorganize Government and apply two-penny plan to non-defense discretionary spending .....				-32	-27	-57	-92	-122	-140	-163	-187	-211	-235	-260	-438	-1,495
Phase down the use of Overseas Contingency Operations funding .....				-13	-5	-20	-33	-40	-43	-75	-94	-102	-109	-113	-141	-634
Provide 2018 emergency funding and align emergency and disaster funding with the ten-year average <sup>4</sup> .....				11	1	-5	-12	-20	-21	-22	-23	-23	-24	-25	-57	-174
Total, reprioritize discretionary spending .....				-2	11	-16	-62	-100	-120	-176	-218	-251	-288	-313	-287	-1,527
Debt service and indirect interest effects .....				*	*	*	-3	-9	-16	-26	-38	-54	-74	-98	-319	
<b>Total changes to spending and receipts in the 2019 Budget</b> .....		4	21	-46	-157	-217	-272	-368	-453	-597	-713	-830	-671	-3,631		
Effect of post-policy boost to economic growth .....				-5	-16	-30	-46	-63	-82	-104	-128	-153	-185	-160	-813	
<b>Total deficit reduction in the 2019 Budget <sup>5</sup></b> .....		4	16	-62	-187	-263	-335	-451	-557	-725	-866	-1,015	-832	-4,445		
<b>Resulting deficits in the 2019 Budget</b> .....	665	873	984	987	916	852	774	672	579	517	450	363	4,513	7,095		
Percent of GDP .....	3.5%	4.4%	4.7%	4.5%	3.9%	3.5%	3.0%	2.5%	2.1%	1.7%	1.4%	1.1%	1.1%	1.1%		

\* \$500 million or less.

<sup>1</sup> Includes adjustments to standardize the number of benefit payments in each year. See Table S-3 for more information on the baseline.  
<sup>2</sup> Includes the following categories of proposals on Table S-6: Address fraud and abuse in Medicare, Eliminate wasteful spending on Government-imposed provider burdens in Medicare care, Eliminate wasteful spending, Medicare drug pricing and payment improvements, Improve the Medicare appeals system, and Medicare interactions.  
<sup>3</sup> Includes interaction between 2019 Budget proposals and the adjustment to standardize the number of benefit payments in each year.  
<sup>4</sup> The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) requires the baseline for discretionary appropriations, including disaster and emergency spending, to reflect the most recent enacted levels, extended through the budget window with adjustments for inflation. This line represents the effect of providing needed emergency funding for 2018 and then aligning emergency and disaster funding with the average of funding provided over the previous ten years, relative to the inflated spending levels in the BBEDCA baseline.  
<sup>5</sup> Includes differences between baseline and policy estimates of the outlay effects of 2019 mandatory sequestration.



BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-3. Baseline by Category <sup>1</sup>**

(In billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
													2019-2023	2019-2028
<b>Outlays:</b>														
Discretionary programs:														
Defense .....	590	611	637	668	678	690	705	719	737	755	774	793	3,378	7,156
Non-defense .....	610	661	656	659	670	669	676	689	705	721	738	756	3,330	6,940
Subtotal, discretionary programs .....	1,200	1,271	1,293	1,327	1,349	1,359	1,381	1,408	1,442	1,476	1,512	1,549	6,708	14,096
Mandatory programs:														
Social Security .....	939	987	1,047	1,109	1,174	1,245	1,319	1,398	1,480	1,566	1,656	1,752	5,894	13,745
Medicare .....	591	582	640	688	743	845	876	902	1,005	1,103	1,196	1,353	3,792	9,350
Medicaid .....	375	402	420	439	464	490	519	549	583	624	661	701	2,332	5,450
Exchange subsidies (including Basic Health Care Program) .....	39	48	48	48	49	52	54	57	60	63	66	69	251	565
Other mandatory programs .....	574	570	576	589	612	654	655	658	684	745	764	815	3,086	6,751
Subtotal, mandatory programs .....	2,519	2,588	2,731	2,873	3,042	3,286	3,423	3,564	3,811	4,100	4,343	4,689	15,355	35,861
Net interest .....	263	310	364	447	515	577	636	684	727	772	815	859	2,538	6,396
Total outlays .....	3,982	4,170	4,388	4,647	4,906	5,222	5,439	5,656	5,980	6,348	6,670	7,098	24,601	56,353
<b>Receipts:</b>														
Individual income taxes .....	1,587	1,660	1,687	1,790	1,917	2,050	2,198	2,348	2,504	2,700	2,883	3,062	9,642	23,140
Corporation income taxes .....	297	218	225	265	273	314	374	417	435	417	406	414	1,451	3,539
Social insurance and retirement receipts:														
Social Security payroll taxes .....	851	852	905	941	995	1,049	1,103	1,164	1,226	1,296	1,361	1,442	4,994	11,483
Medicare payroll taxes .....	256	259	275	287	304	322	339	359	379	401	422	448	1,528	3,535
Unemployment insurance .....	46	48	47	47	47	46	47	48	49	50	52	55	233	488
Other retirement .....	10	10	11	11	12	12	13	14	14	15	16	17	59	135
Excise taxes .....	84	108	108	112	118	121	124	128	132	136	140	146	584	1,265
Estate and gift taxes .....	23	25	17	18	19	21	23	24	26	28	29	31	98	236
Customs duties .....	35	40	44	47	48	50	51	52	53	55	56	58	240	515
Deposits of earnings, Federal Reserve System .....	81	72	55	49	52	59	67	73	77	82	86	91	282	691
Other miscellaneous receipts .....	48	48	50	47	47	49	50	52	52	54	56	57	243	515
Total receipts .....	3,316	3,340	3,424	3,613	3,833	4,095	4,389	4,678	4,948	5,233	5,508	5,820	19,354	45,541
<b>Deficit</b> .....	<b>665</b>	<b>829</b>	<b>964</b>	<b>1,033</b>	<b>1,073</b>	<b>1,127</b>	<b>1,051</b>	<b>978</b>	<b>1,032</b>	<b>1,115</b>	<b>1,162</b>	<b>1,277</b>	<b>5,247</b>	<b>10,812</b>
Net interest .....	263	310	364	447	515	577	636	684	727	772	815	859	2,538	6,396
Primary deficit .....	403	519	600	586	558	550	415	294	305	343	347	418	2,709	4,416
On-budget deficit .....	715	824	955	1,000	1,029	1,070	975	887	925	1,003	1,035	1,142	5,028	10,021
Off-budget deficit/surplus (-) .....	-49	5	9	33	44	57	76	91	107	112	127	135	219	791

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**Table S-3. Baseline by Category 1—Continued**

(In billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
													2019–2023	2019–2028	
<b>Memorandum, totals with pre-policy economic assumptions and standardized to 12 monthly benefit payments:<sup>2</sup></b>															
Receipts .....	3,316	3,340	3,419	3,597	3,804	4,051	4,329	4,600	4,850	5,115	5,366	5,650	19,200	44,781	
Outlays .....	3,982	4,210	4,388	4,647	4,906	5,166	5,438	5,723	5,986	6,357	6,682	7,029	24,545	56,322	
Deficit .....	665	870	969	1,049	1,103	1,115	1,109	1,123	1,136	1,242	1,316	1,378	5,345	11,540	
<b>Memorandum, budget authority for discretionary programs:</b>															
Defense .....	634	637	652	668	684	701	718	736	754	773	792	811	3,422	7,287	
Non-defense .....	586	565	580	594	608	623	639	655	672	689	706	724	3,044	6,489	
Total discretionary budget authority .....	1,220	1,202	1,232	1,262	1,292	1,324	1,357	1,391	1,425	1,461	1,498	1,535	6,466	13,776	

\* \$500 million or less.

<sup>1</sup> Baseline estimates are on the basis of the economic assumptions shown in Table S-9, which incorporate the effects of the Administration's fiscal policies. Baseline totals reflecting current-law economic assumptions are shown in a memorandum bank.

<sup>2</sup> When October 1 falls on a weekend, certain mandatory benefit payments are accelerated to the previous business day, and as a result certain fiscal years can have 11 or 13 benefit payments rather than the normal 12 payments.

BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-4. Proposed Budget by Category**

(In billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
													2019-	2028	
<b>Outlays:</b>															
Discretionary programs:															
Defense .....	590	634	678	721	730	744	759	743	744	755	768	783	3,633	7,426	
Non-defense .....	610	636	626	584	549	498	483	470	461	452	443	436	2,740	5,002	
Subtotal, discretionary programs .....	1,200	1,270	1,304	1,305	1,280	1,242	1,243	1,214	1,205	1,207	1,211	1,219	6,373	12,428	
Mandatory programs:															
Social Security .....	939	987	1,046	1,108	1,173	1,243	1,317	1,395	1,476	1,562	1,652	1,748	5,887	13,720	
Medicare .....	591	582	625	656	703	798	824	848	955	1,024	1,107	1,257	3,605	8,796	
Medicaid and Market-Based Health Care Grant .....	375	400	412	483	480	495	512	528	546	564	579	597	2,382	5,196	
Exchange subsidies (including Basic Health Program) .....	39	48	45	11	.....	.....	.....	.....	.....	.....	.....	.....	56	56	
Other mandatory programs .....	574	577	567	575	590	626	621	617	636	664	662	680	2,979	6,238	
Allowance for infrastructure initiative .....	.....	45	.....	11	18	25	31	29	19	11	4	1	129	193	
Subtotal, mandatory programs .....	2,519	2,593	2,739	2,845	2,964	3,187	3,303	3,416	3,632	3,825	4,004	4,283	15,038	34,199	
Net interest .....	263	310	363	447	510	568	619	658	688	717	740	761	2,507	6,070	
Total outlays .....	3,982	4,173	4,407	4,596	4,754	4,996	5,165	5,288	5,526	5,748	5,955	6,263	23,918	52,697	
<b>Receipts:</b>															
Individual income taxes .....	1,587	1,660	1,688	1,791	1,919	2,053	2,202	2,353	2,511	2,707	2,890	3,070	9,652	23,182	
Corporation income taxes .....	297	218	225	265	273	314	374	417	435	417	406	413	1,451	3,539	
Social insurance and retirement receipts:															
Social Security payroll taxes .....	851	852	905	941	994	1,049	1,103	1,164	1,226	1,296	1,361	1,442	4,992	11,481	
Medicare payroll taxes .....	256	259	275	287	304	322	339	359	379	401	422	448	1,528	3,536	
Unemployment insurance .....	46	48	47	47	48	49	51	50	52	53	55	59	241	510	
Other retirement .....	10	10	11	13	16	19	21	23	24	25	26	26	80	204	
Excise taxes .....	84	108	108	112	119	106	109	111	114	117	121	125	555	1,144	
Estate and gift taxes .....	23	25	17	18	19	21	23	24	26	28	29	31	98	236	
Customs duties .....	35	40	44	47	48	50	51	52	53	54	56	58	239	511	
Deposits of earnings, Federal Reserve System .....	81	72	55	49	53	60	68	73	78	83	87	92	285	698	
Other miscellaneous receipts .....	48	48	51	47	47	49	50	52	53	54	56	58	244	516	
Allowance for Obamacare repeal and replacement .....	.....	.....	-3	-9	-3	-3	-3	-3	-3	-3	-4	-4	-20	-38	
Total receipts .....	3,316	3,340	3,422	3,609	3,838	4,069	4,386	4,675	4,946	5,231	5,506	5,818	19,344	45,520	
<b>Deficit</b> .....	<b>665</b>	<b>833</b>	<b>984</b>	<b>987</b>	<b>916</b>	<b>908</b>	<b>778</b>	<b>612</b>	<b>579</b>	<b>517</b>	<b>450</b>	<b>445</b>	<b>4,574</b>	<b>7,177</b>	
Net interest .....	263	310	363	447	510	568	619	658	688	717	740	761	2,507	6,070	
Primary deficit/surplus (-) .....	403	522	621	540	406	340	160	-46	-109	-199	-291	-316	2,067	1,107	
On-budget deficit .....	715	828	977	956	875	853	706	525	477	410	328	315	4,367	6,423	
Off-budget deficit/surplus (-) .....	-49	5	7	31	41	54	72	87	102	107	122	130	206	754	

**Table S-4. Proposed Budget by Category—Continued**

(In billions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals			
													2019-	2019-	2019-	
<b>Memorandum, totals standardized to 12 monthly benefit payments:<sup>1</sup></b>																
Receipts .....	3,316	3,340	3,422	3,609	3,838	4,089	4,386	4,675	4,946	5,231	5,506	5,818	19,344	45,520		
Outlays .....	3,982	4,214	4,407	4,596	4,754	4,941	5,160	5,348	5,526	5,748	5,955	6,181	23,858	52,615		
Deficit .....	665	873	984	987	916	852	774	672	579	517	450	363	4,513	7,095		
<b>Memorandum, budget authority for discretionary programs:</b>																
Defense .....	634	675	716	733	743	760	778	737	752	768	784	800	3,729	7,570		
Non-defense .....	586	545	483	469	455	434	425	415	408	400	392	385	2,267	4,266		
Total, discretionary budget authority .....	1,220	1,220	1,199	1,202	1,198	1,194	1,203	1,152	1,160	1,168	1,176	1,185	5,996	11,836		
<b>Memorandum, repeal &amp; replace Obamacare—Medicaid and other outlays for health care coverage:</b>																
Medicaid .....	375	400	412	363	357	370	383	397	411	426	438	453	1,885	4,011		
Exchange Subsidies (including Basic Health Program) .....	39	48	45	11	.....	.....	.....	.....	.....	.....	.....	.....	.....	56	56	
Market-Based Health Care Grant .....	.....	.....	.....	120	123	126	128	131	134	138	141	144	497	1,185		
Total, outlays .....	414	448	457	494	480	495	512	528	546	564	579	597	2,438	5,251		

<sup>1</sup> When October 1 falls on a weekend, certain mandatory benefit payments are accelerated to the previous business day, and as a result certain fiscal years can have 11 or 13 benefit payments rather than the normal 12 payments.

BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-5. Proposed Budget by Category as a Percent of GDP**

(As a percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Averages			
													2019-	2019-	2019-	
													2023	2028	2028	
<b>Outlays:</b>																
Discretionary programs:																
Defense .....	3.1	3.2	3.2	3.3	3.1	3.1	3.0	2.8	2.6	2.5	2.5	2.4	3.1	2.8		
Non-defense .....	3.2	3.2	3.0	2.6	2.4	2.0	1.9	1.7	1.6	1.5	1.4	1.3	2.4	2.0		
Subtotal, discretionary programs .....	6.3	6.3	6.2	5.9	5.5	5.1	4.9	4.5	4.3	4.1	3.9	3.7	5.5	4.8		
Mandatory programs:																
Social Security .....	4.9	4.9	5.0	5.0	5.1	5.1	5.1	5.2	5.2	5.3	5.3	5.4	5.1	5.2		
Medicare .....	3.1	2.9	3.0	3.0	3.0	3.3	3.2	3.2	3.4	3.5	3.6	3.9	3.1	3.3		
Medicaid and Market-Based Health Care Grant .....	2.0	2.0	2.0	2.2	2.1	2.0	2.0	2.0	1.9	1.9	1.9	1.8	2.1	2.0		
Exchange subsidies (including Basic Health Program) .....	0.2	0.2	0.2	0.1	.....	.....	.....	.....	.....	.....	.....	.....	0.1	*		
Other mandatory programs .....	3.0	2.9	2.7	2.6	2.5	2.6	2.4	2.3	2.2	2.2	2.1	2.1	2.6	2.4		
Allowance for infrastructure initiative .....	.....	.....	0.2	0.1	0.1	0.1	0.1	0.1	0.1	*	*	*	0.1	0.1		
Subtotal, mandatory programs .....	13.1	12.9	13.0	12.9	12.8	13.1	12.9	12.7	12.9	12.9	12.9	13.1	12.9	12.9		
Net interest .....	1.4	1.5	1.7	2.0	2.2	2.3	2.4	2.4	2.4	2.4	2.4	2.3	2.1	2.3		
Total outlays .....	20.8	20.8	21.0	20.8	20.5	20.5	20.2	19.7	19.6	19.4	19.2	19.2	20.6	20.0		
<b>Receipts:</b>																
Individual income taxes .....	8.3	8.3	8.0	8.1	8.3	8.4	8.6	8.7	8.9	9.1	9.3	9.4	8.3	8.7		
Corporation income taxes .....	1.5	1.1	1.1	1.2	1.2	1.3	1.5	1.5	1.5	1.4	1.3	1.3	1.2	1.3		
Social insurance and retirement receipts:																
Social Security payroll taxes .....	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.4	4.4	4.4	4.3	4.3		
Medicare payroll taxes .....	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.3	1.3		
Unemployment insurance .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
Other retirement .....	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
Excise taxes .....	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4		
Estate and gift taxes .....	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
Customs duties .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
Deposits of earnings, Federal Reserve System .....	0.4	0.4	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3		
Other miscellaneous receipts .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
Allowance for Obamacare repeal and replacement .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....		
Total receipts .....	17.3	16.7	16.3	16.4	16.5	16.8	17.1	17.4	17.5	17.6	17.7	17.8	16.6	17.1		
<b>Deficit</b> .....	<b>3.5</b>	<b>4.2</b>	<b>4.7</b>	<b>4.5</b>	<b>3.9</b>	<b>3.7</b>	<b>3.0</b>	<b>2.3</b>	<b>2.1</b>	<b>1.7</b>	<b>1.4</b>	<b>1.4</b>	<b>4.0</b>	<b>2.9</b>		
Net interest .....	1.4	1.5	1.7	2.0	2.2	2.3	2.4	2.4	2.4	2.4	2.4	2.3	2.1	2.3		
Primary deficit/surplus (-) .....	2.1	2.6	3.0	2.4	1.7	1.4	0.6	-0.2	-0.4	-0.7	-0.9	-1.0	1.8	0.6		
On-budget deficit .....	3.7	4.1	4.7	4.3	3.8	3.5	2.8	2.0	1.7	1.4	1.1	1.0	3.8	2.6		
Off-budget deficit/surplus (-) .....	-0.3	*	*	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.2	0.3		

**Table S-5. Proposed Budget by Category as a Percent of GDP—Continued**  
 (As a percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Averages		
													2019–2023	2019–2028	
<b>Memorandum, totals standardized to 12 monthly benefit payments:</b>															
Receipts .....	17.3	16.7	16.3	16.4	16.5	16.8	17.1	17.4	17.5	17.6	17.7	17.8	16.6	17.1	
Outlays .....	20.8	21.0	21.0	20.8	20.5	20.3	20.2	19.9	19.6	19.4	19.2	19.0	20.5	20.0	
Deficit .....	3.5	4.4	4.7	4.5	3.9	3.5	3.0	2.5	2.1	1.7	1.4	1.1	3.9	2.8	
<b>Memorandum, budget authority for discretionary programs:</b>															
Defense .....	3.3	3.4	3.4	3.3	3.2	3.1	3.0	2.7	2.7	2.6	2.5	2.5	3.2	2.9	
Non-defense .....	3.1	2.7	2.3	2.1	2.0	1.8	1.7	1.5	1.4	1.3	1.3	1.2	2.0	1.7	
Total, discretionary budget authority .....	6.4	6.1	5.7	5.4	5.2	4.9	4.7	4.3	4.1	3.9	3.8	3.6	5.2	4.6	
<b>Memorandum, repeal &amp; replace Obamacare—Medicaid and other outlays for health care coverage:</b>															
Medicaid .....	2.0	2.0	2.0	1.6	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.6	1.5	
Exchange Subsidies (including Basic Health Program) .....	0.2	0.2	0.2	0.1	.....	.....	.....	.....	.....	.....	.....	.....	0.1	*	
Market-Based Health Care Grant .....	.....	.....	.....	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	
Total outlays .....	2.2	2.2	2.2	2.2	2.1	2.0	2.0	2.0	1.9	1.9	1.9	1.8	2.1	2.0	

\*0.05 percent of GDP or less.

BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-6. Mandatory and Receipt Proposals**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
<b>Agriculture:</b>													
<b>Farm Bill savings:</b>													
Limit eligibility for agricultural commodity payments to \$500,000 Adjusted Gross Income (AGI) .....		-114	-89	-142	-135	-124	-120	-111	-102	-98	-90	-604	-1,125
Limit Crop Insurance eligibility to \$500,000 AGI .....			-56	-58	-67	-71	-77	-84	-92	-102	-117	-252	-724
Limit Crop Insurance premium subsidies			-2,231	-2,258	-2,482	-2,502	-2,540	-2,556	-2,587	-2,606	-2,609	-9,473	-22,371
Streamline conservation programs .....		-136	-189	-483	-876	-1,291	-1,689	-2,017	-2,121	-2,120	-2,120	-2,975	-13,042
Eliminate lower priority Farm Bill programs .....		-54	-112	-94	-98	-100	-100	-100	-100	-100	-100	-458	-958
Cap Crop Insurance companies' underwriting gains .....						-413	-420	-426	-430	-437	-439	-833	-2,988
Eliminate Food for Progress food aid program .....			-166	-166	-166	-166	-166	-166	-166	-166	-166	-830	-1,660
Eliminate farm payment limit loopholes .....		-149	-143	-141	-137	-135	-132	-130	-128	-127	-126	-705	-1,348
Eliminate Livestock Forage Program .....		-416	-421	-434	-444	-451	-456	-460	-462	-468	-471	-2,166	-4,483
<b>Total, Farm Bill savings .....</b>		-1,035	-3,407	-3,776	-4,818	-5,260	-5,703	-6,050	-6,188	-6,224	-6,238	-18,296	-48,699
Establish Food Safety and Inspection Service (FSIS) user fee .....			-660	-660	-660	-660	-660	-660	-660	-660	-660	-2,640	-5,940
Establish Animal and Plant Health Inspection Service (APHIS) user fee .....		-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-115	-230
Establish Packers and Stockyards Program user fee .....		-23	-23	-23	-23	-23	-23	-23	-23	-23	-23	-115	-230
Establish Agricultural Marketing Service (AMS) user fee .....		-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-100	-200
Eliminate interest payments to electric and telecommunications utilities .....		-129	-127	-130	-130	-128	-129	-129	-129	-129	-129	-644	-1,289
Eliminate the Rural Economic Development Program .....			-158	-160								-318	-318
Outyear mandatory effects of discretionary changes to the Conservation Stewardship Program .....			-27	-135	-180	-180	-180	-180	-180	-180	-180	-522	-1,422
<b>Total, Agriculture .....</b>		-1,230	-4,445	-4,927	-5,854	-6,294	-6,738	-7,085	-7,223	-7,259	-7,273	-22,750	-58,328
<b>Education:</b>													
Create single income-driven student loan repayment plan <sup>1</sup> .....		-2,429	-6,006	-9,365	-11,883	-13,885	-15,458	-16,317	-17,228	-17,695	-18,099	-43,568	-128,365
Eliminate subsidized student loans .....		-1,500	-2,580	-2,886	-2,973	-2,992	-3,008	-3,050	-3,096	-3,216	-3,254	-12,931	-28,555
Eliminate Public Service Loan Forgiveness .....		-1,720	-2,979	-3,873	-4,411	-4,851	-5,303	-5,511	-5,597	-5,758	-5,859	-17,834	-45,862
Eliminate account maintenance fee payments to guaranty agencies .....		-656										-656	-656
Move Iraq-Afghanistan Service Grants into the Pell Grant program .....												-1	-6
Expand Pell Grants to short-term programs .....		7	27	34	40	46	48	49	49	50	51	154	401

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
Reallocate mandatory Pell funding to support short-term programs .....		-7	-27	-34	-40	-46	-48	-49	-49	-50	-51	-154	-401
Total, Education .....		-6,305	-11,565	-16,124	-19,267	-21,729	-23,770	-24,879	-25,922	-26,670	-27,213	-74,990	-203,444
Energy:													
Repeal borrowing authority for Western Area Power Administration (WAPA) .....		-450	-875	-75	575	275	110	-50	-50	-50	-50	-550	-640
Divest WAPA transmission assets .....			-580									-580	-580
Divest Southwestern Power Administration transmission assets .....			-15									-15	-15
Divest Bonneville Power Administration transmission assets .....			-1,733	-488	-483	-493	-452	-386	-386	-386	-386	-3,197	-5,193
Reform the laws governing how Power Marketing Administrations establish power rates .....		-162	-169	-173	-182	-188	-192	-199	-206	-211	-217	-874	-1,899
Restart Nuclear Waste Fund in 2021 .....				-359	-359	-364	-367	-364	-360	-360	-360	-1,082	-2,893
Total, Energy .....		-612	-3,372	-1,095	-449	-770	-901	-999	-1,002	-1,007	-1,013	-6,298	-11,220
Health and Human Services (HHS):													
Create child welfare flexible funding option .....				7	8	8	8	21	22	18	18	23	110
Reform the title IV-E adoption assistance savings provision .....													
Provide tribal access to the Federal Parent Locator Service .....													
Reauthorize the Promoting Safe and Stable Families program (title IV-B) .....													
Expand the Regional Partnership Grants program .....		13	35	40	40	40	27	5				168	200
Maintain Federal funding for key child care programs .....		499	499	499	499	499	499	499	499	499	499	2,495	4,990
Reauthorize and modify Abstinence Education and the Personal Responsibility Education Program .....		4	52	66	15	2	3	8				139	150
Reauthorize Health Profession Opportunity Grants .....		3	45	18	13	4	2					83	85
Drug pricing and payment improvements:													
Improve 340B program integrity .....													
Medicare:													
Authorize the HHS Secretary to leverage Medicare Part D plans' negotiating power for certain drugs covered under Part B? .....													
Permanently authorize a successful pilot on retroactive Medicare Part D coverage for low-income beneficiaries .....			-20	-30	-30	-30	-30	-40	-40	-40	-40	-110	-300



BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	Totals												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
Increase Medicare Part D plan formulary flexibility .....		-280	-404	-444	-487	-530	-576	-618	-669	-725	-784	-2,145	-5,517
Eliminate cost-sharing on generic drugs for low-income beneficiaries ...		-30	-40	-40	-20	-20	-10	-20	-10	-10	-10	-150	-210
Require Medicare Part D plans to apply a substantial portion of rebates at the point of sale .....	1,785	2,727	3,139	3,583	3,930	4,351	4,801	5,356	5,983	6,555	15,114	42,160	
Exclude manufacturer discounts from the calculation of beneficiary out-of-pocket costs in the Medicare Part D coverage gap .....	-1,490	-2,370	-3,360	-4,800	-5,300	-4,740	-5,360	-5,840	-6,330	-7,430	-17,320	-47,020	
Establish a beneficiary out-of-pocket maximum in the Medicare Part D catastrophic phase .....	377	541	592	648	706	767	825	892	966	1,045	2,864	7,359	
Address abusive drug pricing by manufacturers by establishing an inflation limit for reimbursement of Medicare Part B drugs <sup>2</sup> .....													
Improve manufacturers' reporting of average sales prices to set accurate payment rates <sup>2</sup> .....													
Modify payment for drugs hospitals purchase through the 340B discount program and require a minimum level of charity care for hospitals to receive a payment adjustment related to uncompensated care <sup>2</sup> .....													
Reduce Wholesale Acquisition Cost (WAC)-based payments <sup>2</sup> .....													
Reform exclusivity for first generics to spur greater competition and access	-118	-130	-142	-169	-169	-165	-194	-209	-225	-267	-728	-1,788	
Total, Medicare .....	244	304	-285	-1,325	-1,413	-403	-606	-520	-381	-931	-2,475	-5,316	
Medicaid:													
Test allowing State Medicaid programs to negotiate prices directly with drug manufacturers and set formulary for coverage .....			-5	-10	-10	-10	-10	-10	-10	-10	-10	-35	-85
Clarify definitions under the Medicaid Drug Rebate Program to prevent inappropriately low manufacturer rebates .....	-26	-26	-26	-26	-26	-31	-37	-37	-37	-37	-42	-135	-319
Total, Medicaid .....	-26	-31	-36	-36	-41	-41	-47	-47	-47	-47	-52	-170	-404
Total, drug pricing and payment improvements .....	218	273	-321	-1,361	-1,454	-444	-653	-567	-428	-983	-2,645	-5,720	





**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals		
												2019-2023	2019-2028	
Eliminate the unnecessary requirement of a face-to-face provider visit for durable medical equipment .....														
Total, eliminate wasteful spending on Government-imposed provider burdens in Medicare .....						1,579	3,449	4,591	5,366	6,288	8,209	1,579	29,482	
Address fraud and abuse in Medicare:														
Suspend coverage and payment for questionable Part D prescriptions and incomplete clinical information .....		-30	-30	-40	-40	-40	-40	-40	-50	-50	-50	-190	-420	
Prevent abuse of Medicare coverage when another source has primary responsibility for prescription drug coverage .....		-10	-30	-30	-30	-40	-40	-50	-50	-60	-70	-140	-410	
Expand prior authorization to additional Medicare fee-for-service items at high risk of fraud, waste, and abuse <sup>2</sup> .....														
Prevent fraud by enforcing reporting of enrollment changes through civil monetary penalties for providers and suppliers who fail to update enrollment records .....		-2	-2	-3	-3	-3	-3	-4	-4	-4	-4	-13	-32	
Allow revocation and denial of provider enrollment based on affiliation with a sanctioned entity .....														
Require clearinghouses and billing agents acting on behalf of Medicare providers and suppliers to enroll in the program .....														
Ensure providers that violate Medicare's safety requirements and have harmed patients cannot quickly re-enter the program .....														
Assess a penalty on physicians and practitioners who order services or supplies without proper documentation .....														
Clarify authority for the Healthcare Fraud Prevention Partnership .....														
Alter the Open Payments reporting and publication cycle .....														
Publish the National Provider Identifier for covered recipients in the Open Payments Program .....														
Improve the safety and quality of care by requiring accreditation organizations to publicly report Medicare survey and certification reports .....														
Total, address fraud and abuse in Medicare .....		-42	-62	-79	-79	-99	-89	-100	-110	-120	-135	-361	-915	

BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	Totals												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
Medicare appeals:													
Improve the Medicare appeals system <sup>5</sup> .....		112	112	112	112	112	112	112	112	112	112	560	1,120
Strengthen Medicaid operations and increase State flexibility:													
Allow States to apply asset test to modified adjusted gross income standard populations .....		-50	-100	-190	-200	-220	-230	-240	-260	-270	-290	-760	-2,050
Reduce maximum allowable home equity for Medicaid eligibility .....													
Require documentation of satisfactory immigration status before receipt of Medicaid benefits .....		-170	-180	-190	-200	-210	-220	-230	-250	-260	-280	-950	-2,190
Increase limit on Medicaid copayments for non-emergency use of emergency department .....		-60	-110	-110	-120	-130	-140	-140	-150	-160	-170	-530	-1,290
Define lottery winnings and other lump-sum payments as income for purpose of Medicaid eligibility .....		-3	-3	-4	-5	-5	-5	-6	-6	-6	-7	-20	-50
Increase flexibility in the duration of section 1915(b) managed care waivers .....													
Provide a pathway to make permanent established Medicaid managed care waivers .....													
Total, strengthen Medicaid operations and increase State flexibility .....		-283	-393	-494	-525	-565	-595	-616	-666	-696	-747	-2,260	-5,580
Address wasteful spending, fraud and abuse in Medicaid:													
Continue Medicaid Disproportionate Share Hospital (DSH) allotment reductions .....									-6,510	-6,490	-6,470		-19,470
Consolidate provider enrollment screening for Medicare, Medicaid, and Children's Health Insurance Program (CHIP) .....													
Implement pre-payment controls to prevent inappropriate personal care services payments <sup>2</sup> .....													
Streamline the Medicaid terminations process .....													
Expand Medicaid Fraud Control Unit review to additional care settings <sup>2</sup> .....													
Prohibit Medicaid payments to public providers in excess of costs <sup>2</sup> .....													
Total, address wasteful spending, fraud and abuse in Medicaid .....									-6,510	-6,490	-6,470		-19,470

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Totals		
													2019-2023	2019-2028	
<b>Children's Health Insurance Program (CHIP):</b>															
Extend CHIP through 2019 with reforms <sup>4</sup> ...	2,620	-560	2,565	510	.....	.....	.....	.....	.....	.....	.....	.....	.....	2,515	2,515
Other health: <sup>6</sup>															
Reform medical liability <sup>4,7</sup> .....	.....	-178	-712	-1,862	-3,253	-4,552	-6,098	-7,783	-8,614	-9,122	-9,945	.....	.....	-10,557	-52,119
Reduce the grace period for Exchange premiums <sup>4</sup> .....	.....	-975	-325	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	-1,300	-1,300
Permit federally-facilitated Exchange States to conduct Qualified Health Plan certification .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Prohibit governmental discrimination against health care providers that refuse to cover abortion .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Fully fund the Risk Corridors program ..	812	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Provide CMS Program Management implementation funding .....	.....	12	150	38	.....	.....	.....	.....	.....	.....	.....	.....	.....	200	200
Extend Medicare Enrollment Assistance Programs through 2019 .....	38	38	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	38	38
<b>Total, other health .....</b>	<b>850</b>	<b>-1,103</b>	<b>-887</b>	<b>-1,824</b>	<b>-3,253</b>	<b>-4,552</b>	<b>-6,098</b>	<b>-7,783</b>	<b>-8,614</b>	<b>-9,122</b>	<b>-9,945</b>	<b>.....</b>	<b>.....</b>	<b>-11,619</b>	<b>-53,181</b>
<b>Public health:</b>															
Extend Health Centers through 2019 .....	1,372	3,235	1,939	68	36	.....	.....	.....	.....	.....	.....	.....	.....	5,278	5,278
Extend the National Health Service Corps through 2019 .....	54	210	217	54	14	6	.....	.....	.....	.....	.....	.....	.....	501	501
Extend Teaching Health Centers Graduate Medical Education through 2019 ...	30	60	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	60	60
Extend Family to Family Health Information Centers through 2019 .....	1	4	4	1	.....	.....	.....	.....	.....	.....	.....	.....	.....	9	9
Extend the Maternal, Infant, and Early Childhood Home Visiting Program through 2019 .....	16	120	320	264	64	16	.....	.....	.....	.....	.....	.....	.....	784	784
Extend the Special Diabetes Program for the National Institutes of Health and Indian Health Service (IHS) through 2019 .....	84	203	103	69	19	5	3	1	.....	.....	.....	.....	.....	399	403
Provide tax exemption for IHS Health Professions scholarship and loan repayment programs in return for obligatory service requirement <sup>4</sup> .....	.....	5	12	13	14	14	14	14	14	14	14	14	14	15	15
<b>Total, public health .....</b>	<b>1,557</b>	<b>3,837</b>	<b>2,595</b>	<b>469</b>	<b>147</b>	<b>41</b>	<b>17</b>	<b>15</b>	<b>15</b>	<b>17</b>	<b>17</b>	<b>19</b>	<b>19</b>	<b>7,089</b>	<b>7,172</b>
<b>Interactions:</b>															
Medicare Interactions .....	.....	190	381	471	538	613	665	708	760	807	863	.....	.....	2,193	5,996
Medicaid Interactions .....	.....	.....	146	237	352	462	552	633	723	818	933	.....	.....	1,197	4,856
<b>Total, Interactions .....</b>	<b>.....</b>	<b>190</b>	<b>527</b>	<b>708</b>	<b>890</b>	<b>1,075</b>	<b>1,217</b>	<b>1,341</b>	<b>1,483</b>	<b>1,625</b>	<b>1,796</b>	<b>.....</b>	<b>.....</b>	<b>3,390</b>	<b>10,852</b>
<b>Total, Health and Human Services .....</b>	<b>5,027</b>	<b>15</b>	<b>-5,967</b>	<b>-16,516</b>	<b>-24,973</b>	<b>-29,892</b>	<b>-31,901</b>	<b>-36,223</b>	<b>-46,284</b>	<b>-49,620</b>	<b>-53,985</b>	<b>.....</b>	<b>.....</b>	<b>-77,333</b>	<b>-295,346</b>

BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
<b>Homeland Security:</b>													
Extend expiring Customs and Border Protection (CBP) fees .....													
Increase customs user fees .....		-113	-126	-137	-148	-162	-176	-191	-206	-223	-214	-686	-1,696
Increase immigration user fees .....													
Establish Electronic Visa Update System user fee <sup>4</sup> .....													
Authorize mandatory outlays for U.S. Coast Guard Continuation Pay .....	5	6	6	7	9	9	10	10	10	10	10	36	86
Eliminate BrandUSA; make revenue available to CBP .....	60	66										126	126
Make full Electronic System for Travel Authorization (ESTA) receipts available to CBP <sup>4</sup> .....													
Expand authority of the Aviation Security Capital Fund .....													
Establish an immigration services surcharge <sup>4</sup> .....		-453	-465	-479	-493	-507	-522	-538	-553	-569	-587	-2,397	-5,166
Increase worksite enforcement penalties <sup>4</sup> .....		-13	-14	-15	-15	-15	-15	-15	-15	-15	-15	-72	-147
Establish National Flood Insurance Program affordability assistance <sup>6</sup> .....		2	-2	-11	26	39	50	64	80	91	95	54	434
Reauthorize the Oil Spill Liability Trust Fund excise tax <sup>4,9</sup> .....		-354	-466	-473	-480	-489	-494	-500	-507	-511	-511	-2,262	-4,785
Total, Homeland Security .....		-866	-1,001	-1,108	-1,101	-1,125	-1,147	-1,170	-1,170	-1,170	-1,170	-5,201	-23,906
<b>Interior:</b>													
Cancel Southern Nevada Public Land Management Act (SNPLMA) balances .....		-83	-69	-78								-230	-230
Repeal enhanced geothermal payments to counties .....		-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-20	-40
Reauthorize the Federal Land Transaction Facilitation Act (FLTFA) .....		-5	-6	-9	-12	-3						-35	-35
Permanently reauthorize the Federal Lands Recreation Enhancement Act (FLREA) ..													
Establish a Public Lands Infrastructure Fund .....	152	420	420	614	766	764	766	781	810	842	878	2,716	6,793
Total, Interior .....	60	341	341	523	750	757	762	777	806	838	874	2,431	6,488
<b>Labor:</b>													
Establish a paid parental leave program:													
Provide paid parental leave benefits <sup>4,9,10</sup> ..		700	1,000	1,767	1,678	1,942	2,174	2,228	2,351	2,464	2,568	7,087	18,872
Establish an Unemployment Insurance (UI) solvency standard <sup>4,9</sup> .....				-633	-1,615	-2,230	-919	-1,613	-927	-1,267	-1,907	-4,478	-11,111
Improve UI program integrity <sup>4,9</sup> .....		-83	-188	-211	-211	-174	-195	-181	-229	-194	-216	-867	-1,882
Provide for Reemployment Services and Eligibility Assessments <sup>4,9</sup> .....				-465	-440	-417	-445	-413	-346	-413	-277	-1,395	-3,289
Total, establish a paid parental leave program .....	617	739	739	458	-588	-879	615	21	849	590	168	347	2,590

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
Improve Pension Benefit Guaranty Corporation (PBGC) solvency .....	32	74	-1,470	-1,564	-1,663	-1,760	-1,810	1,428	-5,128	-1,901	-1,936	-6,383	-15,730
Expand Foreign Labor Certification fees .....													
Reform the Federal Employees' Compensation Act (FECA) .....		-62	-7	-5	-5	-5	-6	-6	-8	-8	-5	-84	-117
Reform the Trade Adjustment Assistance program .....		-98	-211	-318	-281	-260	-158	-77	-81	-112	-148	-1,168	-1,744
Adjust the HIRE Vets Medallion Program .....		1	3	4	4	4	4	4	4	4	4	16	36
Total, Labor .....	32	532	-946	-1,425	-2,533	-2,900	-1,355	1,370	-4,364	-1,427	-1,917	-7,272	-14,965
Transportation:													
Air Traffic Control:													
Reform Air Traffic Control <sup>4</sup> .....					15,495	16,241	17,027	17,870	18,674	19,497	20,536	31,736	125,340
Outlay savings from discretionary cap adjustment .....					-8,681	-9,453	-9,829	-10,060	-10,173	-10,173	-10,173	-18,134	-68,542
Reform Essential Air Service <sup>4</sup> .....					61	1	2	2	1	2	2	62	71
Total, Transportation .....					6,875	6,789	7,200	7,812	8,502	9,326	10,365	13,664	56,869
Treasury:													
Provide authority for Bureau of Engraving and Printing to construct new facility <sup>4</sup> .....			-12	-32	-3	89	-360	-53	20	-3	-222	-3	-579
Increase and extend guarantee fee charged by Government-sponsored enterprises .....			-212	-967	-1,699	-2,350	-3,475	-4,258	-3,398	-2,858	-2,401	-8,703	-25,652
Subject Financial Research Fund to appropriations with reforms to the Financial Stability Oversight Council and Office of Financial Research <sup>4,9</sup> .....				33	-13	-18	-18	-18	-18	-18	-18	-17	-107
Increase delinquent Federal non-tax debt collections .....			-32	-32	-32	-32	-32	-32	-32	-32	-32	-160	-320
Increase and streamline recovery of unclaimed assets .....			-8	-8	-8	-8	-8	-8	-8	-8	-8	-40	-80
Implement tax enforcement program integrity cap adjustment <sup>4</sup> .....			-152	-787	-1,825	-3,033	-4,330	-5,554	-6,416	-6,931	-7,270	-10,127	-43,803
Discretionary outlays from tax enforcement program integrity cap adjustment (non-add) .....			320	693	1,040	1,386	1,737	1,850	1,865	1,885	1,893	5,176	14,544
Increase oversight of paid tax return preparers <sup>4</sup> .....			-22	-31	-36	-39	-43	-47	-52	-57	-63	-67	-457
Provide more flexible authority for the Internal Revenue Service to address correctable errors <sup>4</sup> .....			-42	-63	-65	-66	-69	-70	-73	-75	-76	-79	-678
Total, Treasury .....			-481	-1,887	-3,681	-5,457	-8,335	-10,040	-10,613	-10,522	-10,547	-19,841	-71,676
Veterans Affairs (VA):													
Provide for a smooth transition to the new Veterans Community Care program .....		236	479	479	361	215	95					1,770	1,865



BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	Totals												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019- 2023	2019- 2028
Cap Post-9/11 GI Bill flight training programs at public schools .....		-43	-45	-46	-47	-49	-51	-53	-55	-57	-59	-230	-505
Extension of home loan fees .....											-356		-356
Enhance burial benefits for veterans .....		2	2	2	2	2	2	2	3	3	3	10	23
Reinstate COLA round-down .....		-34	-92	-148	-207	-268	-281	-296	-311	-323	-336	-749	-2,296
Standardize and enhance VA Compensation and Pension benefit programs .....		-78	-80	-83	-85	-88	-90	-93	-95	-98	-99	-414	-1,187
Standardize, extend, and improve veteran Specially Adapted Housing programs .....		4	4	5	4	5				1	1	22	24
Standardize and improve veteran vocational rehabilitation and education benefit programs .....		72	-20	-22	-25	-26	-33	-35	-37	-39	-41	-21	-206
Extend authority for securization of vendee loans .....		89	19	52	3	50	3	55	4	58		213	333
Extend housing assistance for homeless veterans and include permanent housing options .....		29										29	29
<b>Total, Veterans Affairs .....</b>		<b>277</b>	<b>267</b>	<b>239</b>	<b>6</b>	<b>-159</b>	<b>-355</b>	<b>-420</b>	<b>-491</b>	<b>-455</b>	<b>-1,185</b>	<b>630</b>	<b>-2,276</b>
<b>Corps of Engineers:</b>													
Divest the Washington Aqueduct .....				-120								-120	-120
Reform inland waterways financing <sup>4</sup> .....		-178	-178	-178	-178	-178	-178	-178	-178	-178	-178	-890	-1,780
Reduce the Harbor Maintenance Tax <sup>4,9</sup> .....		265	281	292	299	307	314	323	333	345	359	1,444	3,118
<b>Total, Corps of Engineers .....</b>		<b>87</b>	<b>103</b>	<b>-6</b>	<b>121</b>	<b>129</b>	<b>136</b>	<b>145</b>	<b>155</b>	<b>167</b>	<b>181</b>	<b>434</b>	<b>1,218</b>
<b>Environmental Protection Agency:</b>													
Expand use of pesticide licensing fees .....			5	4	4	4	3	2	1	1	1	21	29
<b>International Assistance Programs:</b>													
Transfer funds from Overseas Private Investment Corporation to Development Finance Institution .....													
<b>Office of Personnel Management (OPM):</b>													
<b>Federal Employees Health Benefits (FEHB) Program:</b>													
Provide OPM authority to incorporate provisions of the Anti-Kickback Act to the FEHB Program .....													
Modify the Government contribution to FEHB premiums .....				-192	-301	-321	-342	-363	-387	-412	-439	-814	-2,757
Modify existing statute on indemnity benefit plans in FEHB .....													
Provide tax preemption for Federal Employees Dental/Vision Program .....													
<b>Total, Federal Employees Health Benefits (FEHB) Program .....</b>				<b>-192</b>	<b>-301</b>	<b>-321</b>	<b>-342</b>	<b>-363</b>	<b>-387</b>	<b>-412</b>	<b>-439</b>	<b>-814</b>	<b>-2,757</b>



BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
Other <sup>4</sup> .....	15,142	4,991	-4,217	-48,946	-50,891	-53,815	-57,221	-60,387	-63,435	-66,091	-130,903	-431,852	
Total, proposal modeled after the Graham-Cassidy-Heller-Johnson bill .....	12,257	73,844	12,433	9,994	12,634	12,835	6,624	-11,187	-13,380	-25,476	121,162	90,578	
Additional deficit reduction:													
Medicaid reforms .....		4,500	-11,410	-19,920	-28,630	-37,635	-42,640	-48,145	-53,845	-58,940	-64,460	-305,665	
Market-Based Health Care Grant program .....			-26,000	-23,240	-31,417	-39,528	-47,573	-55,550	-62,458	-69,295	-76,058	-421,119	
State implementation .....		1,000	750	250								2,000	
Other .....		-10,000	-21,000	-5,000	-750	-750	-750	-750	-750	-750	-750	-36,750	
Total, additional deficit reduction .....		-9,000	-50,750	-39,400	-51,337	-68,908	-85,958	-98,940	-101,353	-123,890	-135,748	-765,284	
Total, repeal and replace Obamacare .....	3,257	23,094	-26,967	-41,343	-56,274	-73,123	-92,316	-112,540	-137,270	-161,224	-98,233	-674,706	
Reform welfare programs:													
Reform the Supplemental Nutrition Assistance Program .....	-17,169	-18,521	-20,451	-20,468	-21,615	-22,213	-22,353	-23,686	-23,893	-23,157	-98,224	-213,526	
Reduce Temporary Assistance for Needy Families (TANF) block grant .....	-1,155	-1,435	-1,514	-1,552	-1,584	-1,600	-1,600	-1,600	-1,600	-1,600	-1,600	-15,240	
Strengthen TANF .....													
Eliminate the TANF Contingency Fund .....	-545	-608	-608	-608	-608	-608	-608	-608	-608	-608	-608	-6,017	
Get noncustodial parents to work .....	4	5	7	8	10	9	11	13	14	15	34	96	
Strengthen Child Support enforcement and establishment .....	-22	-42	-57	-68	-76	-80	-82	-82	-83	-94	-265	-686	
Establish a Child Support technology fund .....	63	-12	-20	-28	-37	-110	-120	-131	-194	-205	-34	-794	
Eliminate Social Services Block Grant (SSBG) .....	-1,411	-1,649	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-16,660	
Shift SSBG expenditures to Foster Care and Permanency .....	18	21	22	22	22	23	23	23	23	23	105	220	
Require Social Security Number (SSN) for Child Tax Credit & Earned Income Tax Credit .....	-1,186	-1,218	-1,164	-1,086	-1,104	-1,009	-921	-903	-790	-702	-5,758	-10,083	
Promote Welfare to Work Projects .....													
Total, reform welfare programs .....	-21,403	-23,459	-25,485	-25,480	-26,692	-27,288	-27,350	-28,674	-28,831	-28,028	-122,519	-262,690	
Reform disability programs and test new approaches:													
Improve SSI youth transition to work .....	-5	-28	6	46	21	-6	-35	-59	-80	-108	40	-248	
Simplify administration of the SSI program .....			-347	-86	-68	-50	-29	-18	-6	6	19	-579	
Test new approaches to increase labor force participation .....	100	100	100	100	100	100	-2,384	-5,070	-9,171	-13,610	-18,632	-48,367	
Reduce 12 month retroactive Disability Insurance (DI) benefits to six months .....	-362	-669	-846	-992	-1,057	-1,126	-1,198	-1,268	-1,337	-1,401	-3,926	-10,256	

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
Create sliding scale for multi-recipient Supplemental Security Income (SSI) families .....		-588	-618	-636	-693	-661	-631	-702	-720	-738	-814	-3,196	-6,801
Offset overlapping unemployment and disability payments 4,9 .....			-81	-209	-255	-281	-296	-311	-325	-343	-356	-826	-2,457
Reinstate the reconsideration review application stage in 10 States .....		91	-76	-295	-424	-362	-354	-420	-469	-519	-579	-1,066	-3,407
Eliminate Workers Compensation (WC) Reverse Offsets .....				-22	-22	-23	-25	-26	-28	-30	-31	-67	-207
Change the representative fee and approval process .....			3	16	29	43	41	45	44	44	45	91	310
Eliminate the requirement for representative payees to provide an annual accounting report .....													
Administrative Law Judge (ALJ) reforms .....													
<b>Total, reform disability programs and test new approaches .....</b>		-764	-1,716	-1,972	-2,279	-2,270	-4,810	-7,735	-12,002	-16,607	-21,857	-9,001	-72,012
<b>Reduce improper payments:</b>													
Reduce improper payments Government-wide .....			-719	-1,482	-2,383	-4,288	-4,549	-9,652	-20,480	-38,024	-57,633	-8,872	-139,210
Provide additional debt collection authority for civil monetary penalties (CMPs) and assessments .....													
Allow Government-wide use of CBP entry/exit data to prevent improper payments .....				-1	-5	-13	-19	-25	-34	-39	-47	-19	-183
Authorize Social Security Administration (SSA) to use all collection tools to recover funds in certain scenarios .....			-1	-2	-4	-4	-5	-6	-7	-7	-7	-13	-45
Hold fraud facilitators liable for overpayments .....					-1	-1	-1	-1	-1	.....	-1	-2	-6
Increase overpayment collection threshold for Old Age, Survivors, and Disability Insurance .....			-11	-72	-91	-102	-124	-148	-167	-219	-233	-400	-1,398
Exclude SSA debts from discharge in bankruptcy .....			-7	-15	-21	-25	-30	-34	-35	-37	-39	-98	-275
Allow SSA to use commercial database to verify real property .....			-26	-40	-50	-61	-62	-70	-73	-77	-83	-239	-604
Improve collection of pension information from States and localities .....		18	28	24	441	-1,058	-1,505	-1,618	-1,534	-1,442	-1,332	-1,429	-8,860
<b>Total, reduce improper payments .....</b>		-27	-820	-1,623	-3,022	-5,580	-6,321	-11,573	-22,383	-39,859	-59,373	-11,072	-150,581
<b>Infrastructure initiative:</b>													
Encourage increased State, local, and private infrastructure by awarding competitive incentive grants .....		1,000	5,000	11,000	17,500	21,750	19,500	13,250	7,250	3,000	750	56,250	100,000

BUDGET OF THE U. S. GOVERNMENT FOR FISCAL YEAR 2019

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals	
												2019-2023	2019-2028
Address the need for investment in rural infrastructure .....		41,350	3,407	2,851	1,058	399	300	245	200	145	45	49,065	50,000
Support bold, innovative, and transformative projects .....		15	140	770	2,475	4,327	5,135	3,972	2,220	784	202	7,727	20,040
Expand existing Federal infrastructure credit programs .....		311	933	1,556	2,178	2,800	2,489	1,867	1,244	622	.....	7,778	14,000
Establish a Federal Capital Revolving Fund <sup>12</sup> .....		1,867	1,733	1,600	1,467	1,333	1,200	-53	-57	-61	-65	8,000	8,964
Expand flexibility and broaden eligibility for Private Activity Bonds <sup>4</sup> .....		31	138	296	457	616	753	839	893	945	992	1,538	5,960
Total, infrastructure initiative .....		44,574	11,351	18,073	25,135	31,225	29,377	20,120	11,750	5,435	1,924	130,358	198,964
Authorize additional Afghan Special Immigrant Visas .....		22	25	26	23	22	23	20	18	18	19	118	216
Eliminate allocations to the Housing Trust Fund and Capital Magnet Fund <sup>4</sup> .....		-263	-158	-227	-296	-357	-385	-399	-419	-426	-433	-1,301	-3,363
Extend Joint Committee mandatory sequestration .....		.....	.....	.....	.....	.....	.....	8,342	-21,297	-28,570	-31,298	.....	-72,823
Lease Shared Secondary Licenses .....		-50	-55	-55	-60	-65	-70	-70	-80	-80	-85	-285	-670
Improve clarity in worker classification and information reporting requirements <sup>4</sup> .....		100	100	-100	.....	.....	.....	.....	.....	-100	-105	.....	-205
Total, cross-cutting reforms .....		100	25,446	8,162	-38,230	-47,322	-59,991	-82,597	-110,961	-185,627	-300,460	-111,935	-1,037,870
<b>Total, mandatory and receipt proposals ...</b>	<b>5,159</b>	<b>9,793</b>	<b>-30,248</b>	<b>-91,766</b>	<b>-109,661</b>	<b>-155,651</b>	<b>-164,371</b>	<b>-186,910</b>	<b>-292,276</b>	<b>-355,469</b>	<b>-421,691</b>	<b>-357,533</b>	<b>-1,788,250</b>

Note: For receipt effects, positive figures indicate lower receipts. For outlay effects, positive figures indicate higher outlays. For net costs, positive figures indicate higher deficits.

<sup>1</sup> The single income-driven repayment plan proposal has sizable interactive effects with the proposals to eliminate subsidized loans and Public Service Loan Forgiveness. These effects, \$19.2 billion over 10 years, are included in the single income-driven repayment plan subtotal.

<sup>2</sup> Estimates were not available at the time of Budget publication.

<sup>3</sup> This funding is included within the estimates of the proposal to repeal and replace Obamacare.

<sup>4</sup> The estimates for this proposal include effects on receipts. The receipt effects included in the totals above are as follows:

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
Give Medicare beneficiaries with high deductible health plans the option to make tax deductible contributions to Health Savings Accounts and Medical Savings Accounts .....		.....	.....	610	1,071	1,285	1,493	1,599	1,674	1,746	1,807	2,966	11,285
Extend Children's Health Insurance Program through 2019 with reforms .....		-388	-58	.....	.....	.....	.....	.....	.....	.....	.....	-446	-446
Reform medical liability .....		-24	-222	-548	-987	-1,476	-2,067	-2,687	-3,079	-3,290	-3,475	-3,257	-17,855
Reduce the grace period for Exchange premiums .....		-164	-55	.....	.....	.....	.....	.....	.....	.....	.....	-219	-219
Provide tax exemption for IHS Health Professions scholarship and loan repayment programs in return for obligatory service requirement .....		.....	5	12	13	14	14	14	14	14	15	58	137

SUMMARY TABLES

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

											Totals		
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
Establish Electronic Visa Update System user fee .....		-25	-28	-31	-34	-38	-42	-46	-52	-57	-64	-156	-417
Make full Electronic System for Travel Authorization (ESTA) receipts available to CBP .....				-171	-177	-183	-189	-196	-202	-209	-216	-531	-1,543
Establish an immigration services surcharge .....		-453	-465	-479	-493	-507	-522	-538	-553	-569	-587	-2,397	-5,166
Increase worksite enforcement penalties .....		-13	-14	-15	-15	-15	-15	-15	-15	-15	-15	-72	-147
Reauthorize the Oil Spill Liability Trust Fund excise tax .....		-354	-466	-473	-480	-489	-494	-500	-507	-511	-511	-2,262	-4,785
Provide paid parental leave benefits .....					-962	-971	-1,001	-1,194	-1,300	-1,401	-1,495	-1,933	-8,324
Establish an Unemployment Insurance (UI) solvency standard .....				-633	-1,615	-2,230	-919	-1,613	-927	-1,267	-1,907	-4,478	-11,111
Improve UI program integrity .....			1	9	21	72	66	98	69	127	105	103	568
Provide for Reemployment Services and Eligibility Assessments .....			3	14	69	125	128	199	307	287	469	211	1,601
Reform Air Traffic Control .....					15,495	16,241	17,027	17,870	18,674	19,497	20,536	31,736	125,340
Reform Essential Air Service .....					152	156	160	164	168	172	177	308	1,149
Provide authority for Bureau of Engraving and Printing to construct new facility .....		-12	-32	-3	89	-360	-53	20	-3	-222	-3	-318	-579
Subject Financial Research Fund to appropriations with reforms to the Financial Stability Oversight Council and Office of Financial Research .....													
Implement tax enforcement program integrity cap adjustment .....		-1	50	50	50	50	50	50	50	50	50	199	449
Increase oversight of paid tax return preparers .....		-152	-787	-1,825	-3,033	-4,330	-5,554	-6,416	-6,931	-7,270	-7,505	-10,127	-43,803
Provide more flexible authority for the Internal Revenue Service to address correctable errors .....													
Reform inland waterways financing .....			-7	-11	-12	-12	-13	-13	-14	-15	-16	-55	-128
Reduce the Harbor Maintenance Tax .....			-178	-178	-178	-178	-178	-178	-178	-178	-178	-890	-1,780
Increase employee contributions to 50% of cost, phased in at 1% per year .....			265	292	299	307	314	323	333	345	359	1,444	3,118
Proposal modeled after the Graham-Cassidy-Heller-Johnson bill .....				-2,267	-4,602	-8,068	-9,441	-9,456	-9,470	-9,480	-9,479	-21,379	-68,705
Offset overlapping unemployment and disability payments .....													
Expand flexibility and broaden eligibility for Private Activity Bonds .....					3	6	7	14	18	25	29	16	133
Eliminate allocations to the Housing Trust Fund and Capital Magnet Fund .....			31	138	296	457	616	753	839	893	945	1,538	5,960
Improve clarity in worker classification and information reporting requirements .....			-62	-74	-73	-78	-84	-85	-87	-89	-90	-369	-804
Total receipt effects of mandatory proposals .....	100	100	-100										-205
	100	2,003	4,327	-5,274	6,023	2,791	2,378	1,417	2,328	2,180	2,950	9,870	21,123

**Table S-6. Mandatory and Receipt Proposals—Continued**

(Deficit increases (+) or decreases (-) in millions of dollars)

<sup>6</sup>The 2019 Budget requests \$127 million in mandatory resources to support Medicare appeals adjudication at the Office of Medicare Hearings and Appeals and the Departmental Appeals Board. While the total mandatory request is \$127 million annually, the cost to the Government is \$112 million annually, which reflects Medicare Part A and Part B contributions, net of premiums.

<sup>8</sup>In addition to the proposals listed, the Budget requests mandatory appropriations for the Risk Corridors program and for Cost Sharing Reduction payments. These proposals have no deficit effect.

<sup>7</sup>In addition to effects within HHS, the estimates for the proposal include effects within OPM and Treasury.

<sup>8</sup>While this proposal increases Government outlays in the form of means-tested assistance to low-income policyholders, the National Flood Insurance Program is also accelerating premium increases on other policyholders that currently do not pay full-risk premiums.

<sup>9</sup>Net of income offsets.

<sup>10</sup>The paid parental leave proposal consists of \$27,196 million in benefit and program administration costs over the 2019–2028 period, offset by \$8,324 million in savings associated with increased State revenues.

<sup>11</sup>The proposal would allow the District of Columbia (DC) Courts to retain a portion of the bar examination and application fees it currently deposits into the DC Crime Victim's Compensation Fund. Retained fees are estimated at \$360,000 annually beginning in 2019.

<sup>12</sup>The Federal Capital Revolving Fund is capitalized with \$10 billion in mandatory funds in 2019. Agency repayments to the fund are reflected as offsetting collections, which reduce the total outlays estimated from the fund over the 10 year window. However, the initial \$10 billion in capitalization funding is fully expended by 2023.

**Table S-7. Proposed Discretionary Caps for 2019 Budget**

(Net budget authority in billions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals, 2019- 2028
<b>Current Law Base Caps:<sup>1</sup></b>												
Defense	549	562	576	590	605	620	636	652	669	686	703	6,300
Non-Defense	516	530	543	556	570	584	599	614	630	646	662	5,935
<b>Total, Base Current Law Caps</b>	<b>1,065</b>	<b>1,092</b>	<b>1,119</b>	<b>1,146</b>	<b>1,175</b>	<b>1,205</b>	<b>1,235</b>	<b>1,267</b>	<b>1,299</b>	<b>1,332</b>	<b>1,366</b>	<b>12,236</b>
<b>Proposed Base Cap Changes:<sup>2</sup></b>												
Defense	+54	+65	+84	+87	+89	+92	+91	+90	+89	+88	+87	+861
Non-Defense	-54	-65	-87	-109	-132	-155	-179	-202	-226	-250	-274	-1,680
<b>Total, Base Cap Changes</b>	<b>+</b>	<b>+</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-820</b>
<b>Proposed Base Caps:</b>												
Defense	603	627	660	677	694	712	727	742	758	774	790	7,161
Non-Defense	462	465	456	447	438	429	420	412	404	396	388	4,255
<b>Total, Proposed Base Caps</b>	<b>1,065</b>	<b>1,092</b>	<b>1,116</b>	<b>1,124</b>	<b>1,132</b>	<b>1,141</b>	<b>1,147</b>	<b>1,154</b>	<b>1,162</b>	<b>1,170</b>	<b>1,178</b>	<b>11,416</b>
<b>Additional Non-Defense (NDD) Cap Reductions for Budget Proposals:<sup>3</sup></b>												
Air Traffic Control Reform						-10	-10	-10	-10	-10	-10	-71
Federal Employee Retirement Cost Share Reduction			-6	-7	-8	-9	-9	-9	-8	-8	-8	-72
<b>Total, Proposed NDD Cap Reductions</b>			<b>-6</b>	<b>-7</b>	<b>-8</b>	<b>-9</b>	<b>-9</b>	<b>-9</b>	<b>-8</b>	<b>-8</b>	<b>-8</b>	<b>-143</b>
<b>Proposed Base Caps with Additional NDD Adjustments:</b>												
Defense	603	627	660	677	694	712	727	742	758	774	790	7,161
Non-Defense	462	465	450	440	420	410	401	393	386	378	370	4,112
<b>Total, Proposed Base Caps with Adjustments</b>	<b>1,065</b>	<b>1,092</b>	<b>1,110</b>	<b>1,117</b>	<b>1,114</b>	<b>1,122</b>	<b>1,128</b>	<b>1,135</b>	<b>1,144</b>	<b>1,152</b>	<b>1,160</b>	<b>11,273</b>
<b>Cap Adjustments:<sup>4</sup></b>												
Overseas Contingency Operations	78	101	81	70	68	68	12	12	12	12	12	447
Defense <sup>5</sup>	66	89	73	66	66	66	10	10	10	10	10	409
Non-Defense <sup>6</sup>	12	12	8	4	2	2	2	2	2	2	2	38
Emergency Requirements	68											
Program Integrity <sup>7</sup>	2	2	3	3	3	4	4	4	4	4	4	35
Disaster Relief <sup>8</sup>	7	7	7	7	7	7	7	7	7	7	7	67
Wildfire Suppression <sup>7</sup>			2	2	2	2	2	2	2	2	2	15
<b>Total, Cap Adjustments</b>	<b>154</b>	<b>111</b>	<b>92</b>	<b>81</b>	<b>79</b>	<b>80</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>564</b>
<b>Total, Proposed Discretionary Caps:</b>												
Defense	675	716	738	743	760	778	737	752	768	784	800	7,570
Non-Defense	544	487	468	455	433	424	415	407	400	392	385	4,266
<b>Total, Proposed Discretionary Caps</b>	<b>1,219</b>	<b>1,203</b>	<b>1,201</b>	<b>1,197</b>	<b>1,193</b>	<b>1,202</b>	<b>1,152</b>	<b>1,159</b>	<b>1,168</b>	<b>1,176</b>	<b>1,185</b>	<b>11,837</b>



**Table S-7. Proposed Discretionary Caps for 2019 Budget—Continued**

(Net budget authority in billions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Totals, 2019– 2028
<i>Memorandum - Appropriations Counted Outside of Discretionary Caps:</i>												
21st Century CURES Appropriations <sup>9</sup>	1	1	1	1	1	1	1	*	*	*	*	4
Non-BBEDCA Emergency Funding <sup>10</sup>												
* \$500 million or less.		-5										-5

<sup>1</sup> The caps presented here are equal to the levels estimated for 2018 through 2021 in the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) with separate categories of funding for “defense” (or Function 050) and “non-defense” programs and include OMB estimates of Joint Committee enforcement (also known as “sequestration”). For 2022 through 2028, the caps are assumed to grow at current services growth rates.

<sup>2</sup> The Administration’s proposed changes to the caps build off the proposals in the 2018 Budget that was transmitted on May 23, 2017: proposed increases to the existing defense caps for 2018 and 2019 are offset with decreases to the non-defense caps. After 2019, the 2019 Budget proposes defense caps through 2028 that resource the Administration’s National Security and National Defense Strategies. Non-defense caps reflect an annual two percent (or “2-penny”) decrease each year.

<sup>3</sup> These cap reductions are for reforms in the Budget that would shift the Federal Aviation Administration’s air traffic control function to an independent, non-governmental organization beginning in 2022 and reduce Federal agency costs through changes to current civilian employee retirement plans.

<sup>4</sup> The funding amounts below are existing or proposed cap adjustments that are designated pursuant to Section 251(b)(2) of BBEDCA.

<sup>5</sup> The outyear OCO amounts for defense for 2020 through 2023 are consistent with the National Security and National Defense Strategies, while amounts from 2024 through 2028 reflect notional placeholders consistent with a potential transition of certain OCO costs into the base budget while continuing to fund contingency operations. The placeholder amounts for 2024 through 2028 do not reflect specific decisions or assumptions about OCO funding in any particular year.

<sup>6</sup> The outyear OCO amounts for non-defense in the 2019 Budget reflect notional placeholders consistent with a potential transition of certain OCO costs into the base budget. The placeholder amounts do not reflect specific decisions or assumptions about OCO funding in any particular year.

<sup>7</sup> The Budget proposes new cap adjustments related to program integrity in the Internal Revenue Service and wildfire suppression in the Departments of Agriculture and the Interior. For more information on these proposals see the Budget Process chapter of the *Analytical Perspectives* volume of the Budget.

<sup>8</sup> “Disaster Relief” appropriations are amounts designated as such by the Congress provided they are for activities carried out pursuant to a Presidential disaster declaration under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. These amounts are held to a funding ceiling that is determined one year at a time according to a statutory formula. The Administration proposes to change this formula to address the declining ceiling for Disaster Relief appropriations, as discussed in the Budget Process chapter of the *Analytical Perspectives* volume of the Budget. OMB currently estimates the 2019 ceiling to be \$7.4 billion under current law. The Administration is requesting \$6.7 billion for Disaster Relief in 2019, but does not explicitly request disaster-designated appropriations in any year after the budget year. A placeholder set at the budget year request level is included in each of the outyears.

<sup>9</sup> The 21st Century CURES Act permitted funds to be appropriated each year and not counted towards the discretionary caps so long as the appropriations were specifically provided for the authorized purposes. These amounts are displayed outside of the discretionary cap totals for this reason and the levels included through the budget window reflect authorized levels.

<sup>10</sup> The 2019 Budget includes permanent cancellations of balances of emergency funding in the Departments of Energy and Housing and Urban Development that are not designated pursuant to BBEDCA. These cancellations are not being re-designated as emergency, therefore no savings are being achieved under the caps nor will the caps be adjusted for these cancellations.

**Table S-8. 2019 Discretionary Overview by Major Agency**

(Net budget authority in billions of dollars)

	2017 Enacted <sup>1</sup>	2018 Estimate <sup>2</sup>	2019 Request	2019 Request less	
				2017 Enacted	Percent
<b>Base Discretionary Funding:</b>					
<b>Cabinet Departments:</b>					
Agriculture <sup>3</sup> .....	22.7	22.5	19.0	-3.7	-16.4%
Commerce .....	9.3	9.3	9.9	+0.6	+6.1%
Defense <sup>2</sup> .....	523.2	574.5	597.1	+73.9	+14.1%
Education .....	66.9	67.8	59.9	-7.1	-10.5%
Energy .....	30.2	30.0	29.2	-1.0	-3.4%
<i>National Nuclear Security Administration</i> .....	12.8	12.8	15.1	+2.2	+17.5%
<i>Other Energy</i> .....	17.3	17.2	14.1	-3.3	-18.9%
Health and Human Services <sup>4</sup> .....	87.1	86.3	69.5	-17.6	-20.3%
Homeland Security (DHS) <sup>2</sup> .....	42.4	44.1	46.0	+3.6	+8.6%
Housing and Urban Development (HUD):					
<i>HUD gross total (excluding receipts)</i> .....	48.0	47.7	39.2	-8.8	-18.3%
<i>HUD receipts</i> .....	-14.0	-10.3	-10.0	+3.9	-28.2%
Interior .....	13.5	13.4	11.2	-2.3	-16.8%
Justice .....	28.4	28.1	28.0	-0.4	-1.3%
Labor .....	12.0	12.0	9.4	-2.6	-21.4%
State and Other International Programs <sup>3</sup> .....	38.7	38.1	28.3	-10.4	-26.9%
Transportation .....	19.3	19.2	15.6	-3.7	-19.2%
Treasury .....	12.7	12.6	12.3	-0.4	-3.0%
Veterans Affairs .....	74.4	77.3	83.1	+8.7	+11.7%
<b>Major Agencies:</b>					
Corps of Engineers .....	6.2	6.0	4.8	-1.4	-22.2%
Environmental Protection Agency .....	8.2	8.0	5.4	-2.8	-33.7%
General Services Administration .....	-1.2	-0.9	0.6	+1.8	N/A
National Aeronautics & Space Administration .....	19.7	19.5	19.6	-0.1	-0.3%
National Science Foundation .....	7.5	7.4	5.3	-2.2	-29.5%
Small Business Administration .....	0.8	0.8	0.6	-0.2	-24.5%
Social Security Administration <sup>4</sup> .....	9.3	9.3	8.8	-0.5	-4.9%
Other Agencies .....	20.8	20.6	18.0	-2.8	-13.5%
Changes in mandatory programs .....	.....	-20.1	-18.6	-18.6	N/A
Adjustment for 2018 Budget Policy <sup>2</sup> .....	.....	-58.2	.....	.....	N/A
<b>Subtotal, Base Discretionary Funding</b> .....	<b>1,085.9</b>	<b>1,065.0</b>	<b>1,092.0</b>	<b>+6.1</b>	<b>+0.6%</b>
<b>Cap Adjustment Funding:</b>					
Overseas Contingency Operations:					
Defense <sup>2</sup> .....	82.8	65.8	89.0	+6.2	+7.5%
Homeland Security .....	0.2	0.2	.....	-0.2	-100.0%

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**Table S-8. 2019 Discretionary Overview by Major Agency—Continued**

(Net budget authority in billions of dollars)

	2017 Enacted <sup>1</sup>	2018 Estimate <sup>2</sup>	2019 Request	2019 Request less 2017 Enacted	
				Dollar	Percent
State and Other International Programs .....	20.8	20.8	12.0	-8.8	-42.2%
Adjustment for 2018 Budget Policy <sup>2</sup> .....	.....	-8.9	.....	.....	N/A
Subtotal, Overseas Contingency Operations .....	103.7	77.8	101.0	-2.7	-2.6%
Emergency Requirements:					
Agriculture and Interior .....	0.6	0.2	.....	-0.6	-100.0%
Defense .....	.....	4.7	.....	.....	N/A
Homeland Security .....	7.4	18.7	.....	-7.4	-100.0%
Housing and Urban Development .....	8.2	.....	.....	-8.2	-100.0%
Transportation .....	1.5	.....	.....	-1.5	-100.0%
Corps of Engineers .....	1.0	.....	.....	-1.0	-100.0%
National Aeronautics & Space Administration .....	0.2	.....	.....	-0.2	-100.0%
Small Business Administration .....	0.5	.....	.....	-0.5	-100.0%
Subtotal, Emergency Requirements .....	19.4	23.6	.....	-19.4	-100.0%
Emergency Hurricane Request: <sup>5</sup>					
Allowance for Defense Hurricane Request .....	.....	1.2	.....	.....	N/A
Allowance for Non-Defense Hurricane Request .....	.....	42.8	.....	.....	N/A
Subtotal, Emergency Request .....	.....	44.0	.....	.....	N/A
Program Integrity:					
Health and Human Services .....	0.4	0.4	0.5	+0.0	+9.7%
Treasury <sup>6</sup> .....	.....	.....	0.4	+0.4	N/A
Social Security Administration .....	1.5	1.5	1.4	-0.1	-8.8%
Subtotal, Program Integrity .....	2.0	1.9	2.2	+0.3	+13.6%
Disaster Relief: <sup>7</sup>					
Homeland Security .....	6.7	6.7	6.7	-0.1	-0.9%
Housing and Urban Development .....	1.4	.....	.....	-1.4	-100.0%
Subtotal, Disaster Relief .....	8.1	6.7	6.7	-1.5	-18.2%
Wildfire Suppression Operations <sup>6</sup> .....	.....	.....	1.5	+1.5	N/A
Subtotal, Cap Adjustment Funding .....	133.2	154.0	111.4	-21.8	-16.4%
<b>Total, Discretionary Budget Authority Under the Caps .....</b>	<b>1,219.1</b>	<b>1,219.0</b>	<b>1,203.4</b>	<b>-15.7</b>	<b>-1.3%</b>
Memorandum - Appropriations Counted Outside of Discretionary Caps:					
21st Century CURES Appropriations: <sup>8</sup>					
Health and Human Services .....	0.9	0.9	0.8	-0.1	-10.4%
Non-BBEDCA Emergency Appropriations: <sup>9</sup>					
Energy .....	.....	.....	-4.7	-4.7	N/A
Housing and Urban Development .....	.....	.....	-*	-*	N/A

**Table S-8. 2019 Discretionary Overview by Major Agency—Continued**

(Net budget authority in billions of dollars)

* \$50 million or less.
<sup>1</sup> 2017 Enacted reflects the actual amounts, and include many changes that occur after appropriations are enacted that are part of budget execution such as transfers, reestimates, and the rebasing as mandatory any changes in mandatory programs enacted in appropriations bills.
<sup>2</sup> At the time the 2019 Budget was prepared, 2018 appropriations remained incomplete and the 2018 column reflects at the account level enacted full-year and annualized continuing appropriations provided under the Continuing Appropriations Act, 2018 (Division D of Public Law 115-56, as amended by Division A of Public Laws 115-90 and 115-96). The 2018 levels are further adjusted through policy allowances to illustratively reflect the base and Overseas Contingency Operations totals proposed in the Administration's amended 2018 Budget request. These allowances appear within the Department of Defense, the Department of Homeland Security, and Government-wide.
<sup>3</sup> Funding for Food for Peace Title II Grants is included in the State and Other International Programs total. Although the funds are appropriated to the Department of Agriculture, the funds are administered by the U.S. Agency for International Development.
<sup>4</sup> Funding from the Hospital Insurance and Supplementary Medical Insurance trust funds for administrative expenses incurred by the Social Security Administration that support the Medicare program are included in the Health and Human Services total and not in the Social Security Administration total.
<sup>5</sup> The emergency hurricane request represents the Administration's pending proposal for additional Hurricane relief and recovery funding that was transmitted to the Congress on November 17, 2017.
<sup>6</sup> The Budget proposes new cap adjustments related to program integrity in the Internal Revenue Service and wildfire suppression in the Departments of Agriculture and the Interior. For more information on these proposals see the Budget Process chapter of the <i>Analytical Perspectives</i> volume of the Budget.
<sup>7</sup> "Disaster Relief" appropriations are amounts designated as such by the Congress provided they are for activities carried out pursuant to a Presidential disaster declaration under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. These amounts are held to a funding ceiling that is determined one year at a time according to a statutory formula. The Administration proposes to change this formula to address the declining ceiling for Disaster Relief appropriations, as discussed in the Budget Process chapter of the <i>Analytical Perspectives</i> volume of the Budget. OMB currently estimates the 2019 ceiling to be \$7.4 billion under current law. The Administration is requesting \$6.7 billion for Disaster Relief in 2019.
<sup>8</sup> The 21st Century CURES Act permitted funds to be appropriated each year for certain activities and not counted toward the discretionary caps so long as the appropriations were specifically provided for the authorized purposes. These amounts are displayed outside of the discretionary caps totals for this reason.
<sup>9</sup> The 2019 Budget includes permanent cancellations of balances of emergency funding in the Departments of Energy and Housing and Urban Development that are not designated pursuant to BBEDCA. These cancellations are not being re-designated as emergency, therefore no savings are being achieved under the caps nor will the caps be adjusted for these cancellations.

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**Table S-9. Economic Assumptions<sup>1</sup>**

(Calendar years)

	Projections												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Gross Domestic Product (GDP):</b>													
Nominal level, billions of dollars .....	18,624	19,372	20,262	21,263	22,345	23,482	24,672	25,923	27,235	28,598	30,001	31,461	32,991
Percent change, nominal GDP, year/year .....	2.8	4.0	4.6	4.9	5.1	5.1	5.1	5.1	5.1	5.0	4.9	4.9	4.9
Real GDP, percent change, year/year .....	1.5	2.2	3.0	3.2	3.1	3.0	3.0	3.0	3.0	2.9	2.8	2.8	2.8
Real GDP, percent change, Q4/Q4 .....	1.8	2.5	3.1	3.2	3.1	3.0	3.0	3.0	3.0	2.9	2.8	2.8	2.8
GDP chained price index, percent change, year/year .....	1.3	1.7	1.6	1.7	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Consumer Price Index,<sup>2</sup> percent change, year/year .....</b>	1.3	2.1	2.1	2.0	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
<b>Interest rates, percent:<sup>3</sup></b>													
91-day Treasury bills <sup>4</sup> .....	*	0.9	1.5	2.3	2.9	3.0	3.0	2.9	2.9	2.9	2.9	2.9	2.9
10-year Treasury notes .....	1.8	2.3	2.6	3.1	3.4	3.6	3.7	3.7	3.7	3.7	3.6	3.6	3.6
<b>Unemployment rate, civilian, percent<sup>3</sup> .....</b>	4.9	4.4	3.9	3.7	3.8	3.9	4.0	4.2	4.3	4.5	4.7	4.8	4.8

\* 0.05 percent or less.

Note: A more detailed table of economic assumptions appears in Chapter 2, "Economic Assumptions and Interactions with the Budget," in the *Analytical Perspectives* volume of the Budget.

<sup>1</sup> Based on information available as of mid-November 2017.

<sup>2</sup> Seasonally adjusted CPI for all urban consumers.

<sup>3</sup> Annual average.

<sup>4</sup> Average rate, secondary market (bank discount basis).

**Table S-10. Federal Government Financing and Debt**

(Dollar amounts in billions)

	Estimate											
	Actual 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Financing:</b>												
Unified budget deficit:												
Primary deficit/surplus (-)	403	522	621	540	406	340	160	-46	-109	-199	-291	-316
Net interest	263	310	363	447	510	568	619	658	688	717	740	761
Unified budget deficit	665	833	984	987	916	908	778	612	579	517	450	445
As a percent of GDP	3.5%	4.2%	4.7%	4.5%	3.9%	3.7%	3.0%	2.3%	2.1%	1.7%	1.4%	1.4%
Other transactions affecting borrowing from the public:												
Changes in financial assets and liabilities: <sup>1</sup>												
Change in Treasury operating cash balance	-194	191										
Net disbursements of credit financing accounts:												
Direct loan and Troubled Asset Relief Program (TARP) equity purchase accounts	54	101	94	87	87	90	87	80	69	59	50	46
Guaranteed loan accounts	-14	1	5	3	2	-*	-2	-4	-5	-9	-8	-1
Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust (NRRIT)	1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-*
Net change in other financial assets and liabilities <sup>2</sup>	-15											
Subtotal, changes in financial assets and liabilities	-167	292	98	89	88	88	84	75	63	49	41	45
Seigniorage on coins	-*	-*	-*	-*	-*	-*	-*	-*	-*	-*	-*	-*
Total, other transactions affecting borrowing from the public	-168	292	98	88	88	88	84	75	62	49	41	45
Total, requirement to borrow from the public (equals change in debt held by the public)	498	1,124	1,082	1,075	1,004	996	862	687	642	566	491	490
<b>Changes in Debt Subject to Statutory Limitation:</b>												
Change in debt held by the public	498	1,124	1,082	1,075	1,004	996	862	687	642	566	491	490
Change in debt held by Government accounts	168	148	143	123	116	65	89	119	56	53	-55	-138
Change in other factors	4	1	2	3	2	2	2	2	1	1	2	2
Total, change in debt subject to statutory limitation	670	1,274	1,227	1,201	1,121	1,063	953	808	699	620	438	353
<b>Debt Subject to Statutory Limitation, End of Year:</b>												
Debt issued by Treasury	20,180	21,452	22,678	23,877	24,997	26,059	27,011	27,818	28,517	29,137	29,574	29,926
Adjustment for discount, premium, and coverage <sup>3</sup>	29	30	32	33	35	36	37	38	38	38	39	40
Total, debt subject to statutory limitation <sup>4</sup>	20,209	21,483	22,710	23,910	25,032	26,094	27,048	27,856	28,555	29,175	29,613	29,966
<b>Debt Outstanding, End of Year:</b>												
Gross Federal debt: <sup>5</sup>												
Debt issued by Treasury	20,180	21,452	22,678	23,877	24,997	26,059	27,011	27,818	28,517	29,137	29,574	29,926
Debt issued by other agencies	26	26	25	24	23	22	21	20	19	18	17	16
Total, gross Federal debt	20,206	21,478	22,703	23,901	25,020	26,081	27,032	27,838	28,536	29,155	29,591	29,942
As a percent of GDP	105.4%	107.2%	108.1%	108.3%	107.9%	107.0%	105.6%	103.5%	101.0%	98.3%	95.2%	91.8%

**Table S-10. Federal Government Financing and Debt—Continued**

(Dollar amounts in billions)

	Estimate											
	Actual 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Held by:</b>												
Debt held by Government accounts .....	5,540	5,689	5,831	5,954	6,070	6,195	6,223	6,343	6,399	6,452	6,397	6,258
Debt held by the public <sup>6</sup> .....	14,665	15,790	16,872	17,947	18,950	19,946	20,809	21,495	22,137	22,703	23,194	23,684
As a percent of GDP .....	76.5%	78.8%	80.3%	81.3%	81.7%	81.9%	81.3%	79.9%	78.4%	76.6%	74.6%	72.6%
<b>Debt Held by the Public Net of Financial Assets:</b>												
Debt held by the public .....	14,665	15,790	16,872	17,947	18,950	19,946	20,809	21,495	22,137	22,703	23,194	23,684
Less financial assets net of liabilities:												
Treasury operating cash balance .....	159	350	350	350	350	350	350	350	350	350	350	350
Credit financing account balances:												
Direct loan and TARP equity purchase accounts .....	1,281	1,382	1,476	1,563	1,650	1,740	1,827	1,906	1,975	2,034	2,084	2,130
Guaranteed loan accounts .....	14	15	20	23	25	25	23	19	14	4	4	4
Government-sponsored enterprise preferred stock .....	93	95	95	95	95	95	95	95	95	95	95	95
Non-Federal securities held by NRRIT .....	25	25	24	23	22	21	20	19	18	18	18	17
Other assets net of liabilities .....	-58	-58	-58	-58	-58	-58	-58	-58	-58	-58	-58	-58
Total, financial assets net of liabilities .....	1,515	1,809	1,906	1,995	2,083	2,172	2,256	2,331	2,394	2,443	2,485	2,530
Debt held by the public net of financial assets .....	13,151	13,981	14,965	15,952	16,867	17,775	18,553	19,164	19,743	20,260	20,709	21,154
As a percent of GDP .....	68.6%	69.8%	71.3%	72.3%	72.7%	72.9%	72.5%	71.2%	69.9%	68.3%	66.6%	64.9%

\* \$500 million or less.

<sup>1</sup> A decrease in the Treasury operating cash balance (which is an asset) is a means of financing a deficit and therefore has a negative sign. An increase in checks outstanding (which is a liability) is also a means of financing a deficit and therefore also has a negative sign.  
<sup>2</sup> Includes checks outstanding, accrued interest payable on Treasury debt, uninvested deposit fund balances, allocations of special drawing rights, and other liability accounts; and, as an offset, cash and monetary assets (other than the Treasury operating cash balance), other asset accounts, and profit on sale of gold.  
<sup>3</sup> Consists mainly of debt issued by the Federal Financing Bank (which is not subject to limit), the unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds), and the unrealized discount on Government account series securities.  
<sup>4</sup> The statutory debt limit is approximately \$20,456 billion, as increased after December 8, 2017.  
<sup>5</sup> Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities in the Government account series are otherwise measured at face value less unrealized discount (if any).  
<sup>6</sup> At the end of 2017, the Federal Reserve Banks held \$2,465.4 billion of Federal securities and the rest of the public held \$12,200.0 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

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ISBN 978-0-16-094480-2



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December 2018

## U.S. Economic Outlook

Welcome to IHS Markit's book of forecast tables and data.

The worksheets that follow contain quarterly and annual tables for GDP, national income, consumer spending, housing, trade, financial markets, prices, industrial production, potential GDP, and much more.

The "Contents" sheet which follows will take you to the table you want. If your system supports hyperlinks, you can also use them to navigate between individual tables and the table of contents.

The first spreadsheet contains a list of variables with the names by which they may be retrieved from the forecast databanks. The final spreadsheet contains a complete quarterly data dump.

