Friday, November 17, 2017

Dear CEF Members:

I. Policy Intelligence and Education News

- **What to expect in the President's fiscal year 2019 budget request** – At this morning's CEF meeting, Erica Navarro – the Director of the Department of Education's Budget Service – listed five goals that guided the Administration's fiscal year 2018 budget, which will continue in the request for 2019. They are: expanding school choice; protecting vulnerable learners; simplifying student loan repayment options; cutting duplicative or inefficient programs; and funding evidence of effective innovation. She also mentioned the following items that should provide insight into other priorities we will see in the President's 2019 education budget.

  - President's Trump's June 15 Executive Order Expanding Apprenticeships

  - President Trump's September 25 memo on increasing access to STEM education. The memo directs the Department of Education to make access to Science, Technology, Engineering, and Math (STEM) education a priority in awarding FY 2018 competitive grants, with a goal of devoting at least $200 million per year to this effort.

  - Proposed supplemental priorities for discretionary grants announced on October 11.

- **Administration's newest disaster request** – Today the Administration submitted a request (cover letter and proposed offsets are attached) for $44 billion in emergency funding for disaster relief (emergency funding is not counted under the statutory caps on discretionary funding). Congress has already enacted $35.8 billion in supplemental disaster relief this fall. The new request includes $1.2 billion for an education recover fund along with $25.2 billion for traditional disaster relief by the Federal Emergency Management Agency, $12.0 billion for the Community Development Block Grant disaster recovery program, $4.6 billion for damaged federal property and other federal costs, and $1.0 billion for agricultural assistance. The Administration also requests tax relief.

- **Proposes Pell grant rescission and other cuts to offset the emergency funding** – The Administration proposes $14.8 billion in specific cuts to offset some of the new emergency funding, including rescinding $3.9 billion of previously appropriated Pell grant funding – the request that was in the President's FY 2018 budget request. This letter specifies that this Pell grant rescission is not in addition to the rescissions included in the House and Senate FY 2018 funding bills, and notes that for offsets that are included in FY 2018 appropriations bills, "the Administration will work with the

Appropriations Committee to find reductions elsewhere if needed." The Administration also proposes to extend the mandatory sequester on non-defense funding under the Budget Control Act for two years.

- **Other items of interest –**
  - Erica Navarro mentioned the Department's FY 2017 Agency Financial report released this week, which includes a section on Management's Discussion and Analysis that includes the approach to performance management.
  - On a different topic, today there is a Washington Post article citing a Joint Committee on Taxation letter tallying $71 billion in cuts to higher education tax benefits in the House tax reform bill.

My best,

Sheryl

Sheryl V. Cohen, Executive Director

1800 M Street, NW
Suite 500 South
Washington, DC 20036
T: 202-327-8125
cohen@cef.org
www.cef.org

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

THE DIRECTOR

November 17, 2017

The Honorable Paul D. Ryan
Speaker of the House of Representatives
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

This year's Atlantic hurricane season has resulted in historic, widespread destruction that continues to affect the lives of millions of Americans. While the road to recovery from these devastating forces of nature will be long and difficult, the President, myself, and all members of the Administration remain steadfast in our commitment to not only help our communities recover, but to rebuild stronger than before.

Given that Hurricane Maria made landfall only 58 days ago and conditions remain extremely challenging in Puerto Rico and the U.S. Virgin Islands (USVI), detailed damage assessments are not yet available for these communities. Accordingly, the Administration will continue to identify, refine, and articulate additional emergency funding requirements working with the governments of Puerto Rico and USVI, and this supplemental request does not represent the final request for their needs.

To date, the President has signed into law the Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017 (Public Law 115-56), which provided $15.3 billion in emergency funding and necessary authorities to respond to and recover from these storms. The President also signed into law the Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017 (Public Law 115-72), which provided an additional $20.5 billion, for a total of $35.8 billion. This same Act also provided $16 billion in debt cancellation for the National Flood Insurance Program. All told, the cost of the disasters thus far exceeds $50 billion.

At this time, the Administration is requesting additional fiscal year (FY) 2018 funding in the amount of $44 billion and the necessary authorities to address ongoing recovery efforts. Because the need for this funding arises from unforeseen and unanticipated events, the Administration requests that the amounts proposed be provided and designated as emergency requirements pursuant to section 251(b)(2)(A)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA).

As a matter of comity, also provided in this total is $5 million in emergency funding for property damage as requested by the Judicial Branch.

As noted in congressional briefings and discussed in my October 4, 2017 letter to the Congress requesting disaster relief and other emergency funds, it takes 60 days to assemble initial recovery cost estimates after a major hurricane and can take up to 90 days to prepare reliable estimates. Federal agencies and the affected States have been working diligently to collect the information needed and have been able to generate these cost estimates for areas impacted by Hurricanes Harvey and Irma. As a result, this request includes recovery costs in States impacted by Hurricanes Harvey and Irma. The request also includes costs of repairing Federal property, replacement of lost or damaged equipment, and, in a limited number of cases, extraordinary personnel costs that cannot be absorbed within current appropriations, for all of the Atlantic hurricanes.

Because Hurricane Maria occurred more recently, damage assessments are ongoing, including in Puerto Rico and USVI. The Administration is also aware of the unique challenges facing these Territories. Thus, this supplemental request includes funding for the continued disaster response and initial recovery activities for Puerto Rico and USVI including funding to address the Territories' fiscal liquidity needs. Adequate funding for these activities in FY 2018 will be critical to continued response and near-term recovery efforts, such as emergency power restoration and the ongoing distribution of fuel and commodities, as well as initiating efforts under permanent work categories. For Puerto Rico in particular, the Administration seeks, as part of this request, authority to provide public assistance under the Robert T. Stafford Disaster Relief and Emergency Assistance Act without limitation of pre-disaster condition and causation. Related to that, the Administration will work closely with Puerto Rico to develop a plan for rebuilding, which will inform the future request for long-term recovery funding.

Additional details on specific programmatic funding requirements are discussed in an attachment to this letter. In summary, the Administration recommends $25.2 billion for traditional disaster relief administered by the Federal Emergency Management Agency (FEMA) and the Small Business Administration, $1.0 billion for emergency agricultural assistance, $1.2 billion for an Education recovery fund, and $4.6 billion for repair or replacement of damaged Federal property and equipment and other Federal agencies' disaster programs and recovery costs. The Administration also proposes a $12.0 billion appropriation for the Community Development Block Grant Disaster Recovery program focused on flood mitigation projects, which would be awarded competitively to States and Territories that had more than one flood-related major disaster declaration in the past four years. Those States and Territories must present cost-effective solutions to reducing future disaster risk and lowering the potential cost of future disaster recovery. Furthermore, the competition will incentivize those States and Territories to engage in partnerships that will bring non-Federal resources to expedite delivery of the projects. Eligible projects may include projects typically undertaken by and with the U.S. Army Corps of Engineers.

The Administration recognizes that Puerto Rico will need to contribute funds toward its share of the Medicaid program in order to access its remaining FY 2018 Federal Medicaid funding. In addition, Puerto Rico is expected to reach its Federal Medicaid funding cap in early calendar year 2018, at which point the Territory would be responsible for any health care expenditures for this population above the annual capped allotment. Though the Administration expects to work with Puerto Rico and the Congress on medium-term liquidity issues through a

future request, the Administration is aware of legislation being considered to address Medicaid sooner.

Due to this year's historic and widespread wildfires, thousands of families in California are struggling to rebuild their homes and communities. Accordingly, the Administration requests targeted tax relief that will directly aid in the rebuilding process in areas covered by a major disaster declaration. This relief should include: non-itemized deductions for casualty losses waiving the current-law requirement that losses exceed 10 percent of adjusted gross income, penalty-free access to retirement funds, disaster-related employment relief, earned income tax credit reporting-year flexibility, and enhancement of charitable giving incentives. Together, these provisions mirror the tax relief provided in the wake of Hurricanes Harvey, Irma, and Maria (Public Law 115-63).

In addition, the Administration notes its support for legislation that would make houses of worship eligible for disaster relief funding (provided they meet the other relevant criteria for private non-profit facilities) and offers technical assistance regarding the timeframe for applicability.

National Flood Insurance Program (NFIP)

The Administration would like to reemphasize the need for swift action to reauthorize and reform NFIP. On October 4, 2017, the Administration provided the Congress with a set of commonsense reforms that would begin to put the program on a sound financial footing and enable the private market for flood insurance to expand. The Administration is encouraged by House passage of H.R. 2874, the 21st Century Flood Reform Act, and encourages the Congress to reach an agreement on reforming the NFIP, along the lines of H.R. 2874, as soon as possible.

Offsets for Additional Spending

The Administration believes it is prudent to offset new spending. These offsets include the cancellation of unobligated balances that are no longer needed for the purposes for which they were appropriated, as well as for projects and activities that are not as high of a priority as responding to this year's hurricanes in a fiscally responsible manner. Many of these same cancellations were proposed in the President's FY 2018 Budget, and for the purposes of this request are not in addition to those amounts. To the extent that these cancellations would have been considered as part of the FY 2018 appropriations bills, the Administration will work with the Appropriations Committee to find reductions elsewhere if needed. In order to offset increases to the new emergency spending we are requesting, the Congress should also consider designating offsets from base appropriations as an emergency.

To offset the remaining cost of this request, the Administration suggests that the Congress extend the non-defense Joint Committee mandatory sequestration pursuant to 251A of BBEDCA for two additional years.

Finally, these proposed spending reductions are not intended to offset any specific component of this request or of previous requests. We look forward to working with you to find the most appropriate time and manner for the Congress to consider these offsets.

Department of Defense Budget Amendments

On November 6, the President asked the Congress to consider FY 2018 Budget amendments for DOD. This request included an additional $4.0 billion to support urgent missile defeat and defense enhancements to counter the threat from North Korea, $0.7 billion to repair damage to U.S. Navy ships, and $1.2 billion in support of the Administration's South Asia strategy. The Administration is pleased that this request was incorporated into the conference report for the FY 2018 National Defense Authorization Act, and is reiterating the need for the Congress to act on funding this request in a timely manner.

As mentioned in the November 6 request, I also ask the Congress to act on the FY 2018 Budget request for the border wall of $1.6 billion within the Department of Homeland Security's Customs and Border Protection Procurement, Construction, and Improvements account. Providing for the safety of the American people is a top priority of the Administration.

Thank you for your consideration of these requests, additional details for which are included in the attachment to this letter. The Administration looks forward to working with the Congress to support continuing recovery efforts.

Sincerely,

Mick Mulvaney
Director

Identical Letter Sent to:

The Honorable Michael R. Pence
The Honorable Paul D. Ryan
The Honorable Mitch McConnell
The Honorable Charles E. Schumer
The Honorable Nancy Pelosi
The Honorable Rodney Frelinghuysen
The Honorable Thad Cochran
The Honorable Nita Lowey
The Honorable Patrick Leahy

Enclosure

PROPOSED OFFSETS FOR SUPPLEMENTAL HURRICANE FUNDING

Emergency-Designated Proposed Cancellations

Agency	Account	Amount	Explanation
Department of Agriculture	Emergency Conservation Activities, Emergency Watershed Protection Program	$204,000,000	Of the $204 million in balances available in the Emergency Watershed Protection Program, $104 million relates to funding provided in response to Hurricane Sandy. An additional $100 million, approximately, in miscellaneous emergency funding is included, which was provided in response to specific disasters occurring in specific years and is no longer needed for emergency response and recovery efforts as previously provided.
Department of Energy	Advanced Technology Vehicle Manufacturing Loan Program	$4,333,499,813	Since the Advanced Technology Vehicle Manufacturing program's inception in 2007, only five loans have been closed under this authority. Since 2011, no new loans have closed. Efforts to increase the attractiveness of the program to potential borrowers have not yielded increased loan activity. While solicitations for new loan applications are currently open, based on the low level of past and current loan activity, it is unlikely any funds will be obligated in the near-term. The 2018 Budget also proposes to cancel all remaining appropriated credit subsidy for this program. The Senate mark does not include this rescission but the House cancels $1,966 million of these balances.
Department of Energy	Title XVII Innovative Technology Loan Guarantee Program	$479,428,967	ARRA provided $2.5 billion in credit subsidy for a temporary loan guarantee program (Sec. 1705). The authority to make obligations for new loan guarantees expired in 2011. Sec. 1306 of the Dodd-Frank Act (Pub.L. 111–203) rescinded all unobligated ARRA balances as of December 31, 2012. At that time, a Presidential waiver retained $96 million of the Title 17 ARRA balances for future potential modification costs related to management of the Sec. 1705 loan portfolio. Due to recoveries of prior year obligations, $383 million in unobligated ARRA balances has accumulated in the account since December 31, 2012.
Department of Labor	Training and Employment Services, Recovery Act	All available amounts, estimated to be: $22,913,265	The Health National Emergency Grants (NEGs) were authorized under the American Reinvestment and Recovery Act to help states implement the Health Coverage Tax Credit (HCTC) for Trade Adjustment Assistance recipients. There are two types of HCTC NEGs: infrastructure and Gapfiller. Infrastructure NEG funds can be used to help states establish the systems and procedures needed to make healthcare benefits available for eligible individuals. Gapfiller NEGs can be used to provide assistance and support services, including qualifying health insurance coverage, transportation, child care, dependent care and income assistance, to eligible individuals waiting to receive payments through the HCTC. The initial HCTC authorization expired on January 1, 2014, but was reinstated in 2015. Since the HCTC program was reinstated, the Department of Labor has only distributed $1.4 million in Health NEGs and has no plans for the remaining funds.
Corps of Engineers—Civil	Operation and Maintenance	$210,000,000	While the 2018 Budget assumed these funds would be spent in fiscal year 2018, the Corps of Engineers has now identified these funds as excess. They were appropriated to restore Federally-owned projects damaged by Hurricane Sandy; that work has been completed, so these funds are no longer necessary.
Corps of Engineers—Civil	Flood Control and Coastal Emergencies	$519,765,385	
Estimated Total, Emergency-Designated Cancellations:		**$5,769,607,430**	

All Other Proposed Cancellations

Agency	Account	Amount	Explanation
Department of Agriculture	Agriculture Research Service, Buildings and Facilities	$212,000,000	This account provides funds for the modernization of equipment or facilities for the Agricultural Research Service. Funding for modernization efforts can be delayed while still supporting the agency's core mission. The 2018 Budget proposed to cancel $212 million.
Department of Agriculture	Rural Economic Development Grants	$196,000,000	The spending authority for this account is intergovernmental interest earned on a monthly basis on loan deposits (held in escrow) from rural electric and telecom borrowers. The 2018 Budget proposed to cancel $176 million; the current House and Senate 2018 bills both propose to cancel $196 million.
Department of Agriculture	Rural Business Program	$25,000,000	This account funds direct and guaranteed business and industry loans, and rural business development grants. Available funding is from cancelled prior-year obligations. The 2018 Budget proposed to cancel $25 million.
Department of Agriculture	Rural Electrification and Telecommunication Program	$8,000,000	The balances are for the Rural Energy Savings Program, which provides zero interest loans to rural utilities for energy efficiency programs. This funding is available due to low demand. The Senate proposes to cancel $8 million in its mark; the House does not.
Department of Agriculture	Animal and Plant Health Inspection Service	$72,000,000	The Animal and Plant Health Inspection Service carried over available unobligated balances into fiscal year 2018 from their emergency preparedness funds ($16 million), animal health programs ($26 million), plant health programs ($30 million).
Department of Agriculture	Watershed and Flood Prevention Operations	$90,000,000	There are approximately $90 million in discretionary balances available in the Watershed and Flood Prevention Operations account that were provided for non-emergency purposes. These funds would not impact existing contracts and are available for offset.
Department of Agriculture	Farm Security and Rural Investment	$1,419,000,000	Of the unobligated balances available for mandatory conservation programs, $1,419 million is associated with funding provided in prior years for program enrollment, including approximately $400 million to service legacy contracts for programs repealed as part of the 2014 Farm Bill, $230 million in balances carried forward for the Conservation Stewardship Program, and approximately $551 million set aside for potential future agreements under the Regional Conservation Partnership Program.
Department of Agriculture	Special Supplemental Nutrition Program for Women, Infants, and Children	$800,000,000	The 2018 House and Senate marks include $600 million and $800 million rescissions, respectively. The unobligated balances are due to lower than projected costs.
Department of Education	Student Financial Assistance	$3,900,000,000	The House and Senate have marked this 2018 Budget cancellation at $3,271 million and $2,600 million respectively. This $3,900 million cancellation reflects the 2018 Budget request and is not in addition to that amount. Unobligated balances in the Student Financial Assistance account would support Pell Grant program costs in future award years; students will receive the full maximum award for which they are eligible in 2018.

All Other Proposed Cancellations

Agency	Account	Amount	Explanation
Department of Health and Human Services	Non-recurring Expenses Fund	$560,000,000	This 2018 Budget cancellation is marked in the House and Senate at $560 million. The Non-recurring Expenses Fund is a no-year account that receives transfers of expired unobligated balances from discretionary accounts prior to cancellation. The Fund is used for capital acquisition, including facilities infrastructure and information technology infrastructure.
Department of Justice	Working Capital Fund	$410,000,000	This 2018 Budget cancellation is marked at $410 million and $400 million in the House and Senate respectively. The Working Capital Fund finances, on a reimbursable basis, those administrative services that can be performed more efficiently at the Department level.
Department of State	Democracy Fund	$99,000,000	The Democracy Fund account funds democracy programs carried out by the Department of State and U.S. Agency for International Development. The account customarily does not obligate funds until the second year. The FY 2018 Budget requested $112 million of Democracy Funds under the Economic Support and Development Fund (ESDF) account. As such, the Administration does not believe that any more than $112 million is needed in FY 2017, which would free up $99 million of the current balances as a possible offset.
Department of Transportation	Federal-Aid Highways	$1,000,000,000	Federal-Aid Highways funds have a four year period of availability that allows States flexibility in long term planning for transportation infrastructure projects. This proposal rescinds contract authority of prior years that states have not yet obligated and which are above the obligation limitation. However, states will continue to have sufficient Federal Aid balances to meet their construction plans for 2018.
Environmental Protection Agency	State and Tribal Assistance Grants (STAG)	$150,000,000	A $200 million cancellation within this account was proposed in the 2018 President's Budget. The 2018 House Appropriations Bill proposes to cancel $60 million from this account. This appropriation supports EPA programs by providing grants to State and Tribal partners that fund the implementation programs to protect human health and the environment. The STAG account has significant carryover due to a late 2017 final appropriations and EPA, resulting in EPA being unable to obligate all of the grants within fiscal year 2017.
Environmental Protection Agency	Environmental Programs and Management (EPM)	$100,000,000	The 2018 President's Budget proposes a $100 million cancellation within this account. The 2018 House Appropriations bill proposes to cancel $41 million from this account. EPA has been unable to fully staff up to their staffing caps, resulting in carryover that was allocated as pay in the fiscal year 2017 operating plan. EPA has also not yet been able to obligate all of the 2017 nonpay appropriations due to a late 2017 omnibus. This EPM appropriation includes funds for salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the operating programs, including activities under the Working Capital Fund. This appropriation supports the operation and management of core agency programs that implement environmental statutes.
Estimated Total, All Other Cancellations:		**$9,041,000,000**	
Total: Emergency Designated and All Other Cancellations:		**$14,810,607,430**	

Extend Nondefense Joint Committee Sequestration

Agency	Account	Amount	Explanation
Nondefense, non-exempt budget accounts and programs		$44,422,000,000	The 2018 Budget proposed to extend the Joint Committee sequestration, pursuant to 251A of the Balanced Budget and Emergency Deficit Control Act, as amended, for an additional two years. Extending mandatory sequestration is estimated to result in net savings of $44,422 million in budget authority and $39,374 million in outlays over the 2025 to 2027 window.
Total, All Proposed Offsets to Hurricane Supplemental Funding:		**$59,232,607,430**	