APRIL 8, 2015

Answers to Questions for the Record Following a Hearing on the Congressional Budget Office's 2016 Appropriation Request Conducted by the Subcommittee on the Legislative Branch, Senate Committee on Appropriations

On March 10, 2015, the Subcommittee on the Legislative Branch of the Senate Committee on Appropriations convened a hearing at which Douglas W. Elmendorf, then Director of the Congressional Budget Office, testified about CBO's appropriation request for fiscal year 2016.[1] *Chairman Capito submitted questions for the record. This document provides the agency's answers.*

Question. I understand that the FY 2016 budget request includes funding for three additional full-time equivalents (FTE's). Knowing that the salaries and benefits associated with FTE's continue to increase over time, would upgraded, or additional, information technology systems be a more cost-efficient means of increasing CBO's output, rather than hiring new people?

Answer. In CBO's view, hiring the additional people would provide the greatest value to the Congress. The additional employees would be devoted to analyzing the economic effects of federal tax and spending policies (including "dynamic" effects, as required by a new House rule) and health care issues.

Certain needs for information technology were addressed by CBO's 2014 appropriation: The agency acquired greater storage capacity and advanced servers designed for sophisticated statistical analysis and modeling undertaken by an increasingly wide swath of the agency. At this time, to analyze the ever-changing proposals considered by the Congress, CBO's most pressing need is for talented analysts who can determine the modeling approaches that are appropriate for a particular proposal, can develop new models or understand and manipulate existing models, can translate legislative language into a set of parameters for use in modeling, and can make other adjustments for features of the legislative language that are not amenable to standard modeling.

1. See the testimony of Douglas W. Elmendorf, Director, Congressional Budget Office, before the Subcommittee on the Legislative Branch of the Senate Committee on Appropriations, *CBO's Appropriation Request for Fiscal Year 2016* (March 10, 2015), www.cbo.gov/publication/50002.

Question. What would be the impact to the agency if the committee was not able to provide funding for these three additional FTE's in FY 2016?

Answer. With its current staffing, CBO cannot meet all of the Congress's requests for estimates and analyses, particularly in the area of health care, and there is an increasing desire for the agency to analyze the economic effects of federal tax and spending policies, as evidenced by the new House rule and a similar provision in the Senate-passed budget resolution. Without funding for three additional positions in fiscal year 2016, fewer of those requests would be fulfilled, and some such analyses would be less timely than desired. For instance, CBO would anticipate preparing fewer reports with policy options than hoped and being able to complete fewer informal estimates of the effects of bills before markup by committee. Even with the additional staffing, the volume of analyses and estimates that CBO could provide would fall far short of the total number of Congressional requests.

Question. I understand that CBO's budget request for FY 2016 includes an additional full-time equivalent (FTE) for the purpose of conducting dynamic scoring analysis of certain legislation pursuant to the new House Rule XIII, clause 8. Why is an additional FTE necessary to help fulfill this requirement when CBO already has a Macroeconomic Analysis Division? Are any other changes required within the Macroeconomic Analysis Division in order to comply with the new House Rule? If so, what are the costs associated with those changes?

Answer. The agency has excellent analysts in its Macroeconomic Analysis Division, who have built—and continue to build and refine—sophisticated models used as part of such dynamic analyses. Those analyses also involve contributions from analysts in other divisions. Although CBO has done a good deal of work to develop the tools necessary to estimate the macroeconomic effects of legislation, such estimates can be quite complicated and time-consuming because bills can affect a number of key economic variables and each piece of legislation can affect those variables in different ways. Under the House rule, CBO will have to do more such analyses. Because all of the analysts in the Macroeconomic Analysis Division were fully engaged in work for the Congress before the House imposed this new requirement, CBO expects that one additional analyst in its Macroeconomic Analysis Division would be very valuable in helping the agency to meet its additional responsibilities under the House rule in a timely way.

CBO will continue to evaluate whether it has sufficient resources to implement the House rule and any further requirements that may be imposed by the budget resolution. At this point, the agency is uncertain whether additional resources, beyond those already requested, will be needed.

Question. If enacted into law, would any of the provisions in the Senate bill S. 200 require CBO to make further adjustments to its Macroeconomic Analysis Division? Would additional FTE's be necessary, would upgraded software systems be required, or would it be necessary to purchase additional data? If so, what are the costs associated with those changes?

Answer. The analyses required under S. 200—to prepare, to the extent practicable, macroeconomic analysis of major revenue legislation—would generally be prepared by the staff of the Joint Committee on Taxation (JCT). However, analyses of major legislation affecting the revenue provisions of the Affordable Care Act and certain other tax legislation affecting health care would probably be undertaken jointly by JCT and CBO because the two agencies usually work together on such analyses. Such work would affect multiple divisions within CBO, not just the Macroeconomic Analysis Division. The additional full-time-equivalent positions that CBO has already requested would be helpful in meeting the requirements of S. 200, although, as mentioned, the agency is uncertain whether resources beyond those would be needed.

Question. The House rule requires these estimates to cover the current 10-year budget window and the following 20-year period; while the Senate bill requires the estimates to cover the current 10-year window and the following three 10-year periods. Will it be more difficult to provide this analysis for 30 years beyond the first 10-year window as opposed to just 20 years beyond the first 10-year window?

Answer. The House rule requires a qualitative assessment of budgetary effects in the 20-year period beyond the usual 10-year window; S. 200 would require quantitative estimates of changes in economic output, employment, interest rates, the capital stock, and tax revenues over the 30-year period beyond the current 10-year budget window. (S. 200 would also require estimates of changes in employment during the 10-year budget window, which would involve additional analysis beyond that needed to fulfill the requirements of the House rule.) Providing qualitative estimates is not as difficult as preparing quantitative ones. The ability to do the latter will vary depending upon various factors, such as the time horizon involved, the amount of time available to conduct the analysis, the complexity of the legislation being considered, the capability of the tools that the CBO has to assess the legislation's effects, and the agency's judgment about the uncertainty of the analysis.

Providing estimates that look farther into the future would be more difficult and time-consuming. To undertake analyses of effects between 30 and 40 years in the future, CBO would need to assess various additional factors, such as how different trends affecting estimates for components of legislation that were projected for the previous decade might change and how aspects of the legislation that were not binding in previous periods might begin to have effects. Estimates that extend beyond 10 years are generally quite uncertain, and the farther out they go, the more uncertain they become and the more difficult that uncertainty is to evaluate. Hence, when quantifying budgetary effects beyond the first decade, CBO often presents them as a percentage of the size of the economy (in part because economic growth itself is a source of uncertainty).

Question. The House Rule requires that this analysis be made part of the standard CBO cost estimate, but the Senate bill only requires these estimates to be part of a supplemental analysis. Practically speaking, is there a difference in the work performed by CBO to provide this analysis as part of the standard cost estimate vs. providing it as a supplemental analysis?

Answer. In either case, CBO will provide all of the typical information provided today plus additional information about macroeconomic effects. The way CBO presents the budgetary impact of the macroeconomic effects of a proposal—either as part of a cost estimate or as a supplemental analysis—would not fundamentally change the work performed by the agency. However, when dealing with similar legislation, meeting two different requirements for presentation would have the practical effect of adding some effort and time.

Question. I understand that CBO is again requesting authorizing language that would allow no more than 50% of its unobligated balances to remain available for a second fiscal year beyond the year in which it was appropriated. Why is this necessary? What is CBO unable to do with its funds in the year in which they are appropriated that requires carrying them forward?

Answer. To ensure that the agency does not obligate more funds than have been appropriated, CBO sets aside funds to cover unexpected expenses late in the year. When such expenses do not arise, some funds remain unobligated at the end of the year. The authorizing language would provide the agency the flexibility of using a portion of those unobligated balances in the following year to pay for data or other goods or services—such as additional information technology services—that are critical but unforeseen and therefore not included in the budget.

In addition, some obligations made at the end of the year do not result in outlays—when costs turn out to be lower than the maximum obligated amounts. The authorizing language would allow CBO to obligate a portion of those funds again so that they could be used, as originally intended, to sustain CBO's operations. The flexibility that CBO is seeking is based on general provisions that appear in the Financial Services, Homeland Security, and Transportation, Housing and Urban Development appropriation bills.

Question. What would be the consequences to CBO of not providing this authorizing language in FY 2016?

Answer. If the requested flexibility regarding unobligated balances is not provided, CBO will have to use fiscal year 2016 funding to pay for any critical but unforeseen needs—perhaps additional data about health care—and then defer other activities included in the budget, such as the maintenance or replacement of information technology equipment. Moreover, obligated funds in excess of costs would continue to be unavailable to the agency.