



Answers to Questions for the Record Following a Hearing on Oversight of CBO Conducted by the Senate Committee on the Budget

On January 24, 2018, the Senate Committee on the Budget convened a hearing at which Keith Hall, Director of the Congressional Budget Office, testified about CBO's work in 2017 and its future plans.¹ After the hearing, Chairman Enzi, Senator Harris, and Senator Van Hollen submitted questions for the record. This document provides CBO's answers. It is available at www.cbo.gov/publication/53601.

Chairman Enzi

Question. Last year, both the House and Senate spent considerable time working on health care reform. Throughout the process, CBO was subject to heightened scrutiny and congressional demands. At times, senators became acutely aware of the constraints and limitations of your agency. For example, legislative proposals often took four to six weeks to model and then analyze. Can you help us better understand the constraints and limitations CBO experienced last year? How much time was dedicated to conceptualization and interpretation of data compared to actually running your health care model? How does CBO know when its conceptual work is complete? Are there any metrics CBO could use to make this process more efficient?

Answer. CBO and staff of the Joint Committee on Taxation (JCT) analyzed several proposals last year that would have made substantial changes to the way Americans pay for health care, and lawmakers made many other proposals that the agencies did not have the capacity to analyze. Because the proposals would have made such extensive changes, it took CBO and JCT weeks to develop a modeling strategy and undertake their analysis of the various proposals.² That work included:

- Assessing each proposal's likely key effects and considering the pace at which those effects would occur;
- Researching how federal agencies, states, insurers, employers, individuals, doctors, hospitals, and other affected parties would respond to proposals;

1. See testimony of Keith Hall, Director, Congressional Budget Office, before the Senate Committee on the Budget, *The Congressional Budget Office's Work in 2017 and Plans for the Future* (January 24, 2018), www.cbo.gov/publication/53481.

2. For additional discussion, see Congressional Budget Office, *How CBO and JCT Analyze Major Proposals That Would Affect Health Insurance Coverage*, www.cbo.gov/publication/53571.

- Projecting and reviewing effects on health insurance coverage and premiums; and
- Estimating budgetary effects of those changes in coverage and premiums.

Most of the time was spent researching the responses and building new tools to model the ways those specific proposals worked. Understanding the interaction of changes in the way states could implement waivers of provisions of the Affordable Care Act (ACA) with other elements of the proposals and then modeling those effects was especially difficult. Considerable time was also spent analyzing changes to the proposal after modeling had begun. Once the tools were built, computation could usually be done in a day or two for any given model. The analysis used several different models to translate coverage effects into budgetary effects.

In terms of the conceptual work needed to create new tools, the work is complete when those tools are functioning in a way that produces results that appear to be logical and in the middle of the distribution of possible outcomes. CBO has developed measures of the time used for each step in its process and has reduced the time needed to produce estimates of proposals that are similar to those that have been analyzed before.

Question. Last year, CBO produced about 740 formal cost estimates and thousands of informal cost estimates on legislation considered before the Congress. After legislation is passed, how often do CBO analysts go back and review their initial projections? Do you currently have a process in place, outside of putting together subsequent baselines, where CBO leadership reviews what you got right, what you got wrong, and where you can improve? To the extent that lessons can be learned that could benefit future work and estimates, shouldn't this type of review be a priority?

Answer. CBO routinely monitors the budgetary effects of enacted legislation to help the agency improve its projections of spending and receipts under current laws, as well as to improve cost estimates for new legislative proposals.³ Such review is a high priority. At the end of each fiscal year, CBO carefully compares the actual results for that year with its projections of those results at various points in time. The agency also examines patterns over multiple years in the differences between estimates and actual outcomes to improve future estimates.⁴ In addition, CBO consults with outside experts on federal programs to improve its estimating methods.

Judging the accuracy of CBO's cost estimates for legislation that is ultimately enacted is often quite difficult—generally because the actual costs or savings resulting from enacting legislation are a small part of a large budget account or revenue stream and cannot be separately identified. As a result, when spending for a government program turns out to be more or less than CBO had expected after a legislative change, it is usually unclear whether the error

3. For additional explanation of CBO's processes, see Congressional Budget Office, *How CBO Prepares Baseline Budget Projections* (February 2018), www.cbo.gov/publication/53532, and *How CBO Prepares Cost Estimates* (February 2018), www.cbo.gov/publication/53519.

4. See Congressional Budget Office, *CBO's Record of Projecting Subsidies for Health Insurance Under the Affordable Care Act: 2014 to 2016* (December 2017), www.cbo.gov/publication/53094, *An Evaluation of CBO's Past Outlay Projections* (November 2017), www.cbo.gov/publication/53328, and *CBO's Revenue Forecasting Record* (November 2015), www.cbo.gov/publication/50831.

should be attributed to the previous baseline projection for spending under that program or to CBO's estimate of the effects of the new legislation.

Most of the cost estimates that CBO completes are for legislative proposals that are not enacted, so it is not possible for the agency to determine how close its cost estimates were to actual results in those cases. In addition, CBO regularly prepares cost estimates for legislation when bills are reported by committees of the House of Representatives or the Senate. In some cases, such legislation is changed before enactment. Although CBO often provides updated cost estimates prior to enactment of legislation, proposals are sometimes amended after cost estimates were prepared.

Question. CBO's June Budget and Economic Outlook projects 2.2 percent real GDP growth in 2018. The January Blue Chip consensus forecast is 2.6 percent and, in December, the Federal Reserve announced their 2018 outlook increased to 2.5 percent. Do you expect CBO's economic growth projections for 2018 to more closely match outside forecasts in the upcoming baseline?

Answer. Much has happened to fiscal policy and the economy since June 2017, and when CBO updates its economic projections it will incorporate that information. CBO's near-term economic forecasts are often quite similar to the *Blue Chip* consensus, so it would not be surprising if the agency's projection for 2018 is similar again this year.

Question. The recently enacted tax reform bill included a provision that, beginning in 2019, eliminates the individual mandate penalties imposed by the Affordable Care Act. At the time the legislation was being considered by Congress, CBO and JCT estimated that the provision would reduce the federal deficit by roughly \$300 billion over the ten-year budget window and that, in the absence of such penalties, some individuals may decide not to obtain health insurance. The effectiveness of the individual mandate is evolving and major methodological changes in its analysis would likely come in the near future. When did CBO first realize it was overestimating the effects of the individual mandate? What data or economic literature led you to that conclusion? When does CBO plan to update Congress on its work in relation to this issue?

Answer. The estimates of major proposals affecting health care in 2017 were all assessed relative to CBO's March 2016 baseline (with adjustments for subsequent legislation), on the basis of consultation with the budget committees. That baseline was used because the budgetary effects of reconciliation legislation are typically estimated relative to the baseline that underlies the budget resolution that specified the reconciliation instructions.

CBO and JCT's estimates of outcomes under the ACA were reasonably close to the actual results for 2014 and 2015. A large difference first became apparent in the results for 2016. The agencies wrote last June that "enrollment in the marketplaces under current law will probably be lower than was projected under the March 2016 baseline used in this analysis, which would tend to decrease the budgetary savings from this legislation. However, the average subsidy per enrollee under current law will probably be higher than was projected in March 2016, which would tend to increase the budgetary savings from this legislation."⁵

5. See Congressional Budget Office, cost estimate for H.R. 1628, the Better Care Reconciliation Act of 2017 (June 26, 2017), p. 9, www.cbo.gov/publication/52849.

CBO and JCT came to that conclusion after reviewing enrollment and subsidies for 2016 and preliminary data for 2017. Some of the overestimate of marketplace enrollment and underestimate of the average subsidy per enrollee in that baseline was probably related to the effects of the individual mandate, but it is difficult to tell how much. The implications for the budget were not clear because those two effects work in opposite directions. In November 2017, CBO and JCT published an updated estimate of the effect of the individual mandate incorporating revised baseline projections of enrollment in health insurance, premiums, and other factors.⁶

In writing about that estimate, the agencies also indicated that they were undertaking considerable work to revise their analytic methods. CBO and JCT examined data and research that might shed light on the effects, discussed the issues at a meeting of CBO's Panel of Health Advisers, and consulted other experts.⁷ Because that work was not complete and significant changes to the individual mandate were being considered as part of the budget reconciliation process, the agencies published the update in November without incorporating major changes to their analytic methods.

The preliminary results of analysis using the revised methods indicate that the estimated effects on health insurance coverage of eliminating the mandate penalties will be smaller than the numbers reported previously, as noted in the November report. In addition to other technical and economic changes, CBO's next baseline will incorporate estimates of those effects because the repeal of the penalty for not having insurance, which goes into effect in 2019, is now part of current law. CBO plans to describe those baseline projections and all the changes in a report this spring.⁸

Senator Harris

Question. Californians are particularly concerned about the cap of the State and Local Tax Deduction (SALT) in the Tax Cuts and Jobs Act. They are concerned, not only because they know they won't be able to claim as much of a deduction, but also because the cap on SALT will likely make it harder for state and local government to find the funds necessary to finance essential services, such as public safety and education. When an earlier tax proposal was floated to eliminate the deduction altogether, the National Education Association estimated that doing so could result in the loss of 250,000 education jobs, and 38,132 education jobs in California alone. Is CBO able to conduct a similar analysis of the impact that the cap in the SALT deduction might have on funding for state and local governments? If this is in your jurisdiction, could this analysis include projections about potential job losses in fields such as education if funding for local governments is reduced? Lastly, in your assessment, will the GOP tax law, as a whole, create growth in the economy?

6. See Congressional Budget Office, *Repealing the Individual Health Insurance Mandate: An Updated Estimate* (November 2017), www.cbo.gov/publication/53300.

7. For further explanation of these issues, see Alexandra Minicozzi, Unit Chief of Health Insurance Modeling, Congressional Budget Office, "Modeling the Effect of the Individual Mandate on Health Insurance Coverage" (presentation at a meeting of CBO's Panel of Health Advisers, Washington, D.C., September 15, 2017), www.cbo.gov/publication/53105.

8. For last year's version of the report, see Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2017 to 2027* (September 2017), www.cbo.gov/publication/53091.

Answer. CBO does not have the capability to examine the effects of changes in state and local income tax deductions on funding for state and local governments. CBO expects that the recent major tax legislation, Public Law 115-97, will increase economic output over the coming decade. CBO is incorporating that effect into its projections; that analysis is not yet complete and will be published this spring.

Question. Last year, Standard & Poor's (S&P) published a report which suggested that if more women entered and stayed in the workforce, we could grow nominal U.S. GDP by 5 percent to 10 percent over the next few decades. In addition, the United States ranks 20th out of the top 22 nations in terms of how many women in this country participate in the workforce. One of the recommendations the report made was that the CBO should prepare a score about the impact that legislation could have on making it possible for more women to participate in the workforce. Do you think it is possible for CBO to complete a score that analyzes whether the long-term projections about GDP growth are accurate? Additionally, do you think it is possible for CBO to examine how policy decisions, such as the lack of child care affordability, has contributed to the United States falling so far behind other countries in women in the workforce?

Answer. Broadly speaking, CBO could analyze what would happen to economic growth under various assumptions about women's participation in the labor force. Analysis of ways that public policies and other factors have contributed to changes in labor force participation is a subject that CBO has examined recently and could study further.⁹

How any particular piece of legislation would affect that labor force participation may be difficult to assess. CBO would analyze the effects of proposed legislation on economic growth over the next decade in certain circumstances. The Concurrent Resolution on the Budget for Fiscal Year 2018 and a House rule for the 115th Congress require CBO, to the greatest extent practicable, to incorporate the budgetary impact of macroeconomic effects into its 10-year cost estimates for "major" legislation that Congressional authorizing committees approve. Major legislation is defined as either having either a gross budgetary effect—before incorporating macroeconomic effects—of 0.25 percent of gross domestic product in any year over the next 10 years, or having been designated as such by the Chairman of either Budget Committee. Those macroeconomic effects might include, for example, changes in the supply of labor or in private investment. Such estimates must also include, when practicable, a qualitative assessment of the budgetary effects for the following 20 years.

Question. Congress created CBO in 1974 to be a source of expert, impartial analysis to lawmakers and I appreciate the work that you and your staff do on a daily basis to help inform the decisions that we make. However, the current Administration has made comments deriding the work of CBO. In May, the Office of Management and Budget (OMB), Director Mick Mulvaney, said that we had to ask ourselves if the "day of the CBO had come and gone?" Some suggest that OMB itself should be in charge of making budgetary projections about proposed legislation. What is the value in the work CBO provides Congress versus the same work from the Administration's Office of Management and Budget?

Answer. CBO's mission is to help the Congress make effective public policy by providing nonpartisan information that supports the budget process. In carrying out that mission, the

9. See Congressional Budget Office, *Factors Affecting the Labor Force Participation of People Ages 25 to 54* (February 2018), www.cbo.gov/publication/53452.

agency offers an alternative to the information provided by OMB: Lawmakers created CBO to give the Congress its own information about budget matters. In keeping with CBO's mandate to provide analysis that is objective as well as impartial, the agency makes no policy recommendations. Instead, it strives to present fully and fairly the likely consequences of proposals being considered by the Congress so that lawmakers can make informed policy choices.

CBO also devotes substantial effort to providing technical assistance, sometimes including preliminary estimates, at other stages of the legislative process—such as when legislation is being developed or when amendments to legislation are being considered. Such technical assistance occurs primarily through staff-to-staff communications, and it takes place very frequently—for the development of thousands of legislative proposals and amendments each year. OMB does not generally provide such assistance to both the majority and minority staffs of committees. In some cases, preliminary estimates are prepared when Members or their staffs are evaluating alternative proposals to accomplish their goals, have not made any specific proposals public, and need the flexibility to modify their proposals before they become public, sometimes in response to CBO's preliminary estimates. In such situations, CBO recognizes that the confidentiality of its work is critical to committees' deliberations, so it keeps preliminary analysis and estimates confidential as long as the proposals are not made public.

Question. Last month, the Department of Housing and Urban Development released its Annual Homelessness Assessment Report to Congress (AHAR). That report found that California's homeless population has increased 14 percent to 134,278 people.¹⁰ However, we are seeing signs that the housing market is rebounding. Last year, the Case-Shiller National Home Price index showed that home prices nationally are now above their pre-crisis level. So, on one hand, we are seeing remarkable recovery in the housing market, but this recovery has not translated into progress on making housing options more affordable. Is there any data that CBO has that could shed some light on this disconnect between a rebounding housing market and a homelessness problem that continues to grow?

Answer. Data that might shed light on the relationship between a rebounding housing market and growing homelessness are available from a variety of sources. The recovery in the housing market—the increase in home prices evidenced by the S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, along with the increased demand for rental housing—implies that private property owners have opportunities to charge more for housing units.¹¹ Hence, the supply of less expensive rentals has declined, particularly in centrally located communities.

In addition, federal housing assistance for low-income households, which generally requires recipients to contribute 30 percent of their income toward rent, has shifted over time toward support for units that are privately owned instead of publicly owned. Consequently, fewer units may be available to people with low income. The National Low Income Housing Coalition recently reported that for every 100 extremely low-income renters (defined as

10. See Department of Housing and Urban Development, *The 2017 Annual Homeless Assessment Report (AHAR) to Congress* (prepared by Abt Associates, December 2017), <https://tinyurl.com/yddmgojc> (PDF, 14.2 MB).

11. See Joint Center for Housing Studies of Harvard University, *America's Rental Housing of 2017*, <https://tinyurl.com/y8882grg> (PDF, 3.7 MB).

those who earn less than 30 percent of area median income), only 35 rental units of adequate condition were available at a cost of 30 percent of their income.¹²

CBO recently examined federal housing assistance for low-income households, although the agency has not examined the homeless population in particular.¹³ Low-income housing assistance is largely provided through discretionary spending that serves only about one-quarter of the eligible population. Most of those served are extremely low-income households. Among the eligible households that do not receive assistance, there are roughly eight million households with “worst-case needs” as defined by the Department of Housing and Urban Development (HUD). The homeless constitute an additional population that is eligible for, but does not receive, federal housing assistance. The estimated size of the homeless population is available in the department’s annual report to the Congress. In its most recent publication, HUD reported that the number of people experiencing homelessness declined in 30 states and the District of Columbia between 2016 and 2017, but increased in 20 states.¹⁴ The largest percentage increases were in North Dakota (18 percent) and California (14 percent).

Senator Van Hollen

Question. I have a question about the expiration of the authorization of appropriations for WMATA. I understand that Congressman Connolly’s office recently reached out to you on this issue. I am particularly interested in the provision from H.R. 2095, the Railroad Safety Enhancement Act of 2008, that authorized \$1.5 billion in funding for WMATA. There seem to be differing interpretations about the language. Some maintain that FY18 is the last year of the authorization and others say FY19 is the final year, and still others say the authorization expires after the full \$1.5 billion has been appropriated. The WMATA authorization is not on CBO’s list of expiring authorizations for FY18.¹⁵ Also, a CBO estimate that examined the original bill language that eventually became Title VI in H.R. 2095 and which included language identical to the authorization language in H.R. 2095 acknowledges that the funding would probably start in FY2010 and continue for ten years from that point to FY19.¹⁶ Can CBO please provide further guidance on when this authorization expires?

Answer. Every year, CBO publishes a report on *Expired and Expiring Authorizations of Appropriations* (EEAA) as required by section 202(e)(3) of the Congressional Budget and Impoundment Control Act of 1974 (as amended). That report identifies:

- All programs and activities funded for the current fiscal year for which an explicit authorization of appropriations has expired, and

12. See National Low Income Housing Coalition, *The Gap: A Shortage of Affordable Homes*, (March 2017), <http://nlihc.org/research/gap-report>.

13. See Congressional Budget Office, *Federal Housing Assistance for Low-Income Households* (September 2015), www.cbo.gov/publication/50782.

14. See Department of Housing and Urban Development, *The 2017 Annual Homeless Assessment Report (AHAR) to Congress* (prepared by Abt Associates, December 2017), <https://tinyurl.com/yb7rvdrj> (15 MB).

15. See Congressional Budget Office, *Expired and Expiring Authorizations of Appropriations* (January 2018), www.cbo.gov/publication/53444.

16. See Congressional Budget Office, cost estimate for H.R. 401, the National Capital Transportation Amendments Act of 2007 (April 27, 2007), www.cbo.gov/publication/18592.

- All programs and activities for which an explicit authorization of appropriations will expire during the current fiscal year.

The purpose of that report is “to help Congress use the early months of the year to adopt authorizing legislation that must be in place before the regular appropriations bills can be considered.”¹⁷ In preparing the report, CBO consults with the appropriate committees of the House of Representatives and the Senate, which it does by sharing preliminary drafts of the appendixes attached to its annual report.

Your question concerns the authorization of appropriations in section 601(f) of the Passenger Rail Investment and Improvement Act of 2008 (div. B of Public Law 110-432). That provision authorized \$1.5 billion in appropriations for the Secretary of Transportation to make grants to the Washington Metropolitan Area Transit Authority for capital and preventive maintenance projects. Specifically, it states:

“There are authorized to be appropriated to the Secretary of Transportation for grants under this section an aggregate amount not to exceed \$1,500,000,000 to be available in increments over 10 fiscal years beginning in fiscal year 2009, or until expended.”

CBO has considered the authorization in subsection 601(f) to be permanent because it does not specify either an expiration date or a finite period of applicability. CBO has viewed the second half of that subsection as providing guidance about when and how funds should be appropriated if the Congress subsequently chooses to do so: that is, either in increments over a 10-year period, or perhaps over a longer period of time “until expended.”

For that reason, CBO did not include this authorization of appropriations in its current EEAA report, which details authorizations of appropriations that will expire during fiscal year 2018. Moreover, CBO does not record this as an item due to expire during fiscal year 2019 in its Legislative Classification System. In fact, because the provision does not specify a set period of time for the authorization, the item would never appear in CBO’s report as an expiring or expired item.

CBO’s EEAA report is intended to aid the Congress by identifying expired and expiring authorizations of appropriations. However, the agency’s determinations for that are not authoritative for other purposes, such as the enforcement of the rules of the House of Representatives and the Senate. Determinations about whether an appropriation lacks authorization—and therefore may violate a House or Senate rule—are the purview of each chamber.

17. See U.S. House of Representatives, *Balanced Budget and Emergency Deficit Control Act of 1985: Conference Report to Accompany H.J.Res. 372*, House Report 99-433 (December 10, 1985), p. 114. The conference report amended the Congressional Budget Act of 1974 to include the requirement for this report.