Senate Appropriations Subcommittee on Financial Services and General Government
FY 2015 Treasury Budget Testimony
April 30, 2014

Chairman Udall, Ranking Member Johanns, members of the Subcommittee, thank you for giving me the opportunity to speak about the Treasury Budget. The President's FY 2015 Budget requests $13.8 billion to fund the Department's operating bureaus. This includes an important increase for the Internal Revenue Service and a decrease for the rest of the Department, which I will cover in more detail below.

Let me start by saying what an honor it is to work with the dedicated men and women at the Department of Treasury. They are talented public servants who are focused on strengthening our country. They have endured much over recent years including a federal pay freeze, sequestration, and the government shutdown, and I want to thank them for their service and commitment.

I would now like to turn to an overview of the economy and the substantial progress we have made toward recovering from the worst recession since the Great Depression. We have now experienced nearly five years of growth. A stronger private sector is helping grow the economy and drive deficits lower. Our businesses have added 8.9 million jobs over the last 49 months. The housing market has improved. Home prices are rising, and millions of homeowners are no longer under water on their mortgages. Household balance sheets continue to heal, exports are growing, and manufacturing is making solid gains. And health care costs are growing at the slowest rate in 50 years.

I want to take a moment and quickly applaud the Senate Banking Committee for beginning their markup of important legislation to reform our housing finance system yesterday. Now is the time to reform our housing finance sector. Housing starts, new home sales, and existing home sales all reached multi-year highs last year, rates of mortgage delinquency and foreclosure have declined to near pre-recession levels, and the appreciation we have seen in home prices has substantially reduced the share of mortgages that are underwater. But we need to build on that progress, and the pent up demand from years of low household formation combined with generally housing affordability can spur a step up in new construction to reverse the downward trend we have seen in home sales since mid-2013. A resurgent housing sector would boost the economy and generate new jobs, and a successful reform to housing finance would reinforce that cycle.

Five and a half years after the GSEs were put in conservatorship, we still face a housing finance system does not adequately meet the needs of the American people. Far too many potential homeowners do not have access to credit, and will not until there is a clear path to a new system that provides certainty to all participants. The system today continues a flawed dynamic where taxpayers must support future losses at Fannie Mae and Freddie Mac should there be another downturn in home prices. We need to start reform now – and we need legislation to achieve the fundamental reforms that protect both consumers and taxpayers. The longer we put it off, the easier it is to forget the damage to the economy, loss of housing wealth, and instability a system with misaligned incentives and inadequate taxpayer and consumer protections

As the President said in his State of the Union address, we are now better positioned to meet the demands of the 21st century than any other nation.

There is considerably more that needs to be done. While corporate profits have been hitting all-time highs and the stock market has been vibrant, too many in the middle class and those striving to get into the middle class, are struggling to make ends meet.

The President's Budget addresses these challenges. It puts forward proven, pro-growth initiatives to expand opportunity for all Americans. And it fulfills the President's pledge to make this a year of action, while offering a framework for long-term prosperity and competitiveness.

As part of this proposal, the President's request for the Treasury will allow the department to carry out its mission to maintain a strong economy and responsibly manage the government's finances. It will also allow Treasury to foster greater investment in American communities and small businesses, protect our national security, monitor risks to the financial system, and promote conditions that support economic growth and stability at home and abroad.

Strengthening the economy and job creation, protecting the financial system

For nearly 20 years, Treasury's Community Development Financial Institutions (CDFI) Fund has been attracting economic development and job creation to America's underserved communities. This year's request includes $225 million for the CDFI Fund, just over $1 million below last year's request, including a proposed one-year extension of the CDFI Bond Guarantee program, which provides a source of long-term capital to financial institutions that support lending in underserved communities. Of the total request, $35 million for the Healthy Food Financing Initiative will support the growth of businesses that improve the availability of affordable, healthy food options in low-income communities.

We are also supporting small business growth by requesting a second round of funding for the State Small Business Credit Initiative (SSBCI), which was enacted in 2010 to empower states to help small companies grow. Just last week, I saw the positive difference SSBCI can make in our communities when I visited New Center Stamping in Detroit. New Center Stamping utilized SSBCI funding to grow and hire new employees, and demonstrates how targeted policies and programs can drive growth, strengthen the middle class, and bolster local economies.

The program's original funding of $1.5 billion is expected to result in up to $15 billion in new investments in small businesses by leveraging $10 in private capital for every $1 of federal support, and during 2013 states more than doubled their use of these funds. To continue our support for state economic development agencies' work with small businesses, the Budget proposes a new investment of $1.5 billion for the SSBCI. This additional funding would be awarded in two allocations: $1 billion awarded on a competitive basis to states best able to target underserved groups, leverage federal funding, and evaluate results; and $500 million awarded according to a need-based formula based on economic factors such as job losses and the pace of economic recovery.

In the coming year, Treasury will continue to rebuild and reform our financial system. Reforms like the Volcker Rule are transforming the way Wall Street operates, while strengthening our financial system and making our economy an engine of economic growth once again. Going forward, we must remain vigilant to potential new threats to the stability of the financial system, constantly monitoring how risks change and evolve. Treasury will continue to wind down the remaining investments in the Troubled Asset Relief Program (TARP), often recovering more than the original support extended, and continue the operation of TARP's housing programs to help struggling homeowners avoid foreclosure.

The Budget also proposes to extend the Terrorism Risk Insurance Program and to implement programmatic reforms to limit taxpayer exposure and achieve cost neutrality. The extension will preserve the long-term availability and affordability of property and casualty insurance for terrorism risk.

Finally, we seek to improve the protection and resilience of the critical infrastructure in the financial sectors with a special focus on reducing the risks associated with cybersecurity incidents. Working with industry and government partners, we promote best practices, develop incident management plans, and identify, analyze, and share timely and actionable information. . Further, this budget includes $11 million for investments in enhancing Treasury's own cyber-preparedness and the security of Treasury's vast array of unclassified sensitive, classified, and very sensitive intelligence information. We must also ensure that our vital systems and services remain operational even under severe circumstances. As stewards of this information and IT services, it is our responsibility to ensure it is properly secure both from continuously evolving external and insider threats. These improvements to our own systems, and Treasury's continued work with our private sector partners to advance cybersecurity in the financial industry are vital to ensuring continued economic growth.

Boosting resources for taxpayer services and enforcement measures, finding new efficiencies across Treasury programs

The President's Budget makes substantial investments in improved taxpayer service and enforcement at the Internal Revenue Service (IRS), as well as in technology that will drive IRS efficiencies in the future. The Budget also builds on Treasury's ongoing efforts to improve efficiency, reduce costs, and streamline operations. The IRS continues its commitment to carrying out its responsibilities, providing quality service to taxpayers and preserving the public's faith in our tax system, but the lack of sufficient funding in recent years has made it difficult to provide the kind of services American taxpayers deserve. While the IRS is working hard to provide the highest possible level of taxpayer service within its limited resources, its funding situation is causing taxpayers to face longer wait times on the phone, and it is taking longer to respond to taxpayer correspondence. A sustained deterioration in taxpayer service combined with reduced enforcement activity could create serious long-term risk for the U.S. tax system, which is based on voluntary compliance.

To counter these effects, Treasury's Budget request includes substantial investments to help strengthen taxpayer service, enforcement, and technology at the IRS. The FY 2015 Treasury Budget includes $2.3 billion for taxpayer service, supporting initiatives designed to improve the

IRS' ability to provide timely and accurate responses to taxpayer inquiries, as well as make more information accessible in a secure digital environment.

The request for the IRS includes a $1.2 billion increase, of which $480 million is financed by a proposed program integrity cap adjustment for enforcement initiatives that provide a high return on investment. This proposed cap adjustment funds strategic investments that will help close the tax gap and will return six dollars for every dollar invested, once fully implemented. The proposed cap adjustment will yield $2.1 billion in additional enforcement revenue in 2017 and is projected to reduce the deficit by $35 billion over the next 10 years.

Treasury's request also includes $452 million for initiatives that are critical to full and effective IRS implementation of the Affordable Care Act, which the Congressional Budget Office has projected will lower the deficit substantially over the next two decades. Thanks to the ACA, 8 million people have signed up for private insurance through the Health Insurance Marketplace, 3 million young adults have gained coverage by being able to stay on their parents' plan, and millions more have secured coverage through Medicaid and the Children's Health Insurance Program. The law is also providing greater security to Americans who already have coverage, making discrimination based on pre-existing conditions and lifetime limits on coverage a thing of the past.

The FY 2015 Treasury Budget builds on our commitment over the past five years to deliver core services more efficiently and at a lower cost to the taxpayer. In fact, the department has been able to propose more than $1.1 billion in savings in its budget submissions over the past four years. Excluding the IRS, the FY 2015 Treasury Budget reflects a decrease of 1.7 percent below the FY 2014 enacted level and identifies $154.2 million in efficiency savings and program reductions.

One area where we have made progress has been our multi-pronged effort to expand the use of electronic transactions in conducting the business of government, including electronic payroll savings bonds, electronic benefit payments, and electronic tax collection. These efforts have reduced costs, improved customer service, and decreased susceptibility to fraud. The "Paperless Treasury" initiative has saved the government hundreds of millions of dollars through electronic payment of benefits and increases in the electronic filing rate for tax returns.

It is important to note that the President's Budget also includes a separate Opportunity, Growth, and Security Initiative. This Initiative includes pro-growth investments that are fully paid for by cutting spending and closing tax loopholes. Treasury investments under the Initiative will support progress in the areas of taxpayer service, fiscal transparency, and global food security. This includes $165 million to support additional IRS customer service improvements, including increasing annual toll-free telephone service levels to over 80 percent, driving responsiveness to taxpayers through correspondence inventory reduction, and bolstering resources to help tackle more highly burdensome identity theft and refund fraud cases.

Protecting national security interests and preventing illicit use of the financial system

I want to end by highlighting the Treasury Budget's proposals to protect our national security interests and continue the department's financial intelligence and enforcement activities.

The Treasury Budget proposes $105.9 million for the Office of Terrorism and Financial Intelligence (TFI), within the Departmental Offices, to oversee and marshal Treasury's intelligence, enforcement, and economic sanctions functions in support of U.S. national security policies and interests. Our funding request reflects Treasury's continued efforts to safeguard financial systems against illicit use and combat rogue nations, terrorist facilitators, money laundering, and other threats to our national security.

In particular, TFI conducted a sustained sanctions campaign against Iran, its agents, and its front companies in response to Iran's continued defiance of United Nations Security Council resolutions related to its nuclear program. As a result, banks around the world have continued cutting off Iran from the international financial sector; this isolation has played an essential role in bringing Iran to the negotiating table.

Last year, we completed more than 500 actions under our sanctions authorities in an effort to disrupt and dismantle the financial networks that support terrorists, narcotics traffickers, transnational organized crime, and the proliferators of weapons of mass destruction. Our sanctions programs are effective because they stand on a foundation of reliable intelligence analysis, strong systemic safeguards in the financial sector, and robust engagement with our financial sector, foreign governments, and foreign financial institutions.

The Ukrainian people have demonstrated tremendous courage as they have charted an independent course for their country and demanded a government that reflects the will of the people. The United States has been at the forefront of building international support for Ukraine, and of holding Russia accountable for its attempts to destabilize Ukraine. And Treasury has played a key role in these efforts, not just through our carefully designed sanctions program but also in monitoring the impacts to U.S. economic interests, pushing forward the U.S. loan guarantee for Ukraine, offering technical assistance to the government of Ukraine, and encouraging support from partners and international institutions such as the International Monetary Fund.

The United States very much wants to see Ukraine prosper. It is in our economic interest and it is in our strategic interests to stand with the people of Ukraine in their time of need.

Conclusion

The FY 2015 Treasury Budget reflects a careful balance of savings proposals and targeted investments in key priorities.

The proposed savings will be achieved through a combination of efficiency improvements and increased streamlining of operational processes, making Treasury even leaner and more effective as it continues to deliver essential services to the American people.

The Treasury Budget is balanced, responsible and carefully-designed. It adheres to the President's strategy to make our economy stronger while keeping our fiscal house in order. And I am eager to work with you to put it into action.

Thank you and I look forward to answering your questions.