

EMBARGOED FOR DELIVERY
UNTIL 10:00 A.M., APRIL 25, 2013

Secretary Jacob J. Lew
FY 2014 Treasury Budget Testimony
House Committee on Appropriations
Subcommittee on Financial Services and General Government
Thursday, April 25, 2013

Chairman Crenshaw, Ranking Member Serrano, members of the Subcommittee, thank you for giving me the opportunity to speak about the Treasury Budget.

I. Introduction

I would like to turn to the current state of economic conditions.

The United States economy has made substantial progress toward recovering from the worst financial crisis since the Great Depression. Despite significant headwinds – both as a result of the crisis and from other temporary shocks – the economy has grown at an average annual rate of just over 2 percent over the last three and a half years. We have seen steady improvement in the labor market, where private sector employers have added nearly 6.5 million jobs since the trough of the labor market in February 2010. The housing market, which had been a significant drag on economic growth throughout the recession and into the early stages of the recovery, is now gaining upward momentum.

While our economy is stronger today, more work must be done to help create jobs and accelerate growth. Even though the unemployment rate, at 7.6 percent, is at its lowest level in four years, it is still too high. Too many Americans are still struggling to find work. Despite recent improvements in the housing market, many families remain underwater on their mortgages and credit-worthy borrowers continue to have trouble getting the financing they need to buy homes or refinance existing mortgages. Although corporate profits are at an all-time high, America's middle class continues to struggle.

The President has laid out a strategy to address these challenges. His path forward strengthens the economic recovery by making important investments in manufacturing, innovation, infrastructure, education, and worker training while taking a balanced approach to bringing our deficits down to a sustainable level. This balanced approach includes entitlement reform, targeted spending cuts, and increased revenue through tax reform. And it is based on the conviction that we can both get our fiscal house in order and lay a foundation for long-term growth at the same time. We do not have to choose one over the other.

Treasury plays a vital role in helping to shape and implement the President's economic policies, promoting a carefully balanced fiscal policy, driving reform of the financial system, encouraging lending to small businesses, working to reform the tax system, promoting economic prosperity, and monitoring risk in the financial system.

It is important to note that Treasury continues to implement the comprehensive financial reforms included in the Dodd-Frank Act. These reforms place tougher limits on risk-taking by financial institutions in order to stabilize the financial system and protect American taxpayers. Our

financial institutions have boosted their level and quality of capital and are stronger and more stable than before the crisis. These developments have made our financial system safer and stronger and better able to support lending and economic growth.

We are also supporting small business growth through our Small Business Lending Fund (SBLF) and State Small Business Credit Initiative (SSBCI). As of September 30, 2012, SBLF participants have increased their small business lending by \$7.4 billion over a \$36.5 billion baseline and by \$740 million over the prior quarter. In 2012, Treasury approved \$137 million for disbursement to states under the SSBCI. Treasury estimates disbursing cumulative totals of approximately \$1.1 billion by the end of FY 2013 and the remaining \$360 million by the end of FY 2014.

Treasury's FY 2014 Budget supports the President's strategy to meet our economic and fiscal goals by focusing on key priorities that will strengthen growth and lower costs to the taxpayer. Our Budget does this by reducing waste, increasing efficiency, and making investments to accomplish our core missions and achieve future savings.

Our request includes substantial investments in improved taxpayer service and enforcement and in technology at the Internal Revenue Service (IRS), which will drive efficiencies in the future. The proposal also reflects Treasury's contribution to protect our national security interests and prevent illicit use of the financial system.

II. Improving Efficiency, Reducing Taxpayer Costs, and Streamlining Operations

The FY 2014 Treasury Budget reflects a decrease of 2.3 percent from FY 2012 enacted levels, excluding the IRS. The request for the IRS includes a \$1 billion increase, of which \$412 million is financed by a program integrity cap adjustment for enforcement initiatives that provide a high return on investment. This cap adjustment, which also includes \$5 million for enforcement activities at the Alcohol and Tobacco Tax and Trade Bureau (TTB), funds strategic investments that will help close the tax gap and will return \$6 for every dollar invested, once fully implemented. The proposed cap adjustment will yield more than \$32 billion in net savings to reduce the deficit over the next 10 years.

Treasury's request also includes funding for initiatives that are critical to full and effective IRS implementation of the Affordable Care Act (ACA), which lowers the forecast budget deficit by more than \$1 trillion over the next two decades. The ACA is helping to slow the growth of healthcare costs, and continued implementation of the ACA will improve the quality and efficiency of the healthcare system. Nevertheless, in order for the IRS to carry out its obligations as mandated by Congress under the healthcare law, it needs the appropriate resources. Beginning in 2014, millions of Americans will receive unprecedented tax benefits that will make buying health insurance affordable. The IRS must have the necessary funding to assist Americans as important provisions of the law go into effect. For instance, the IRS must invest in new technology and modify existing IRS tax administration systems. These efforts will facilitate prompt and accurate application of the premium tax credits while protecting taxpayer information.

EMBARGOED FOR DELIVERY
UNTIL 10:00 A.M., APRIL 25, 2013

The sequester has taken a toll on Treasury, but we are doing everything we can to absorb these cuts without reducing services. We have scaled back training, delayed contracts, and limited purchases. Even with these measures, the brunt of the cuts is being felt by Treasury's hard working public servants. At the IRS, workers will have to stay at home without pay for as many as seven days between now and September. The FY 2013 IRS operating plan is almost \$1 billion below the FY 2011 enacted level, and as a result, the IRS has 8,000 fewer full-time employees than just two years ago. Sequestration hurts not only Treasury employees, but taxpayers as well. The cuts imposed by sequestration erode our ability to provide quality service by forcing the IRS to answer fewer calls and creating unexpected delays in responding to taxpayer questions. It will also lead to fewer enforcement actions and reduced revenue collection.

The Treasury Budget builds on our commitment over the past four years to deliver core services more efficiently and at a lower cost to the taxpayer. Our request identifies \$354 million in efficiency savings and \$29 million in program reductions.

Key savings proposals include space optimization and infrastructure efficiencies for the IRS, manufacturing support systems and spoilage reduction for the Bureau of Engraving and Printing (BEP), rent and data center savings for the Bureau of the Fiscal Service, and numerous administrative and personnel efficiencies across multiple bureaus.

We are also continuing to achieve savings from our ongoing paperless initiative. Treasury has implemented a multi-pronged effort to expand the use of electronic transactions in conducting the business of government, including through electronic payroll savings bonds, electronic benefit payments, and electronic tax collection.

Treasury's paperless initiatives are estimated to save \$500 million over the five years from FY 2011 to FY 2015. In addition to these savings, our efforts have resulted in improved customer service and decreased susceptibility to fraud. The IRS's e-file program has proven highly successful, saving the Department millions of dollars every year. For example, in 2012, it cost 23 cents to process an e-filed return – a fraction of the \$3.36 it takes to process a paper return. With e-file, taxpayers get their refund faster, with fewer data processing errors. The individual e-file rate is now above 80 percent.

In FY 2014, Treasury will implement a number of initiatives to improve operational efficiency and effectiveness across government. For example, Treasury is continuing to consolidate its two fiscal bureaus to create a stronger, more effective and efficient Fiscal Service organization that can take the lead in improving financial management throughout the government. The consolidation will also save up to approximately \$96 million over 10 years. In addition, we are pleased that the Government Accountability Office (GAO) has recognized our progress improving the management of IRS information technology by removing our Business Systems Modernization from their high-risk list this year.

The FY 2014 Budget also includes additional funding for the Office of Financial Innovation and Transformation (FIT), which is working in coordination with the Government-wide CFO Council to improve financial management, reduce costs, increase transparency, and improve

EMBARGOED FOR DELIVERY
UNTIL 10:00 A.M., APRIL 25, 2013

delivery of agencies' missions within Treasury and across the federal government. Treasury also proposes to transfer FIT from the Departmental Offices (DO) to the Bureau of the Fiscal Service to allow closer collaboration with the bureau that most closely aligns with its mission.

The Budget also includes resources to administer the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act), which established the Gulf Coast Restoration Trust Fund to provide for the economic and environmental restoration of the Gulf region after the Deepwater Horizon Spill. Treasury will serve administrative, compliance, and audit roles to ensure that funds are disbursed as required by the RESTORE Act.

Under the leadership of my predecessor, Treasury demonstrated creativity and resolve to find the most efficient ways to accomplish the important work that we do to serve the American public. As Secretary, I will make sure the efforts to reduce costs and increase effectiveness continue across the Department.

III. Investing in Economic Growth and Job Creation

Treasury supports economic growth for local communities and small businesses by funding projects that encourage job creation, attract investment, and increase financial access and capability.

Our \$225 million request for the Community Development Financial Institutions (CDFI) Fund focuses on providing funding to promote economic development investments in low-income and underserved communities. Up to \$35 million of that request will go to the Healthy Food Financing Initiative (HFFI), which will support increased availability of affordable, healthy food alternatives in these communities.

The Budget requests \$300 million in capped mandatory funding for Pay for Success, a new program that will reward nonprofits and other groups that finance preventive social programs that create savings for the federal government while achieving better outcomes for their target populations.

The Budget also proposes \$5 million for the new Financial Capability Innovation initiative, which will help low- and moderate-income people get the support and services they need so they can save more and manage their finances more effectively.

The Treasury Budget includes \$3 million for research and evaluation efforts that will allow us to make better budget and policy decisions on programs designed to encourage economic growth and opportunity.

IV. Protecting our National Security Interests and Preventing Illicit Use of the Financial System

Treasury's financial intelligence and enforcement activities play a significant role in protecting our financial system from threats to our national security. Our funding request for the Office of

EMBARGOED FOR DELIVERY
UNTIL 10:00 A.M., APRIL 25, 2013

Terrorism and Financial Intelligence (TFI) reflects our continued efforts to target rogue nations, terrorist facilitators, transnational criminals, money laundering, and other threats to our financial system and our nation's security.

Treasury has led the Administration's efforts in isolating Iran from the global economy and cutting off vital sources of revenue that could be used to support Iran's nuclear program and support for terrorism. This work has resulted in what is now widely regarded as the toughest sanctions regime in history.

V. Conclusion

The FY 2014 Treasury Budget reflects a careful balance of savings proposals and targeted investments.

The proposed savings will be achieved through a combination of efficiency improvements and increased streamlining of operational processes, making Treasury a stronger organization that continues to provide indispensable services across the country efficiently and effectively. Our investments are aimed at reaching goals we all share: an economy that is expanding, a private sector that is robust, and a job market that is full of opportunities.

Treasury's work is carried out by a team of public servants that I am proud to represent here today. And on behalf of those hard working men and women, I want to say how much we appreciate the support of this Committee over the past several years.