Financial Services and General Government

Eliminate the Small Business Administration's Disaster Loans Program

RECOMMENDATION

Eliminate the Small Business Administration's (SBA's) Disaster Loans Program (DLP). This proposal saves $198 million in FY 2018.

RATIONALE

After federally declared disasters, SBA disaster loans offer taxpayer-funded direct loans to assist businesses, nonprofit organizations, homeowners, and renters in repairing damaged, and replacing destroyed, property. Unfortunately, the generous federal disaster relief offered by the DLP creates a "moral hazard" by discouraging individuals and businesses from purchasing insurance for natural catastrophes. Currently, SBA disaster loans are awarded regardless of whether the beneficiaries previously took steps to reduce their exposure to losses from natural disasters.

While SBA disaster loans are intended to help applicants return their property to the same condition as before the disaster, the unintended consequence of this requirement is that borrowers are forced to rebuild in disaster-prone locations. For example, instead of moving from a town located in a major flood zone, applicants are required to rebuild in the exact same location. Thus, applicants are still located in a high-risk area. In many cases, the loans fail to offer a long-term solution.

ADDITIONAL READING

- David B. Muhlhausen, "Business Disaster Reform Act of 2013: Review of Impact and Effectiveness," testimony before the Committee on Small Business and Entrepreneurship, U.S. Senate, March 14, 2013.

CALCULATIONS

Savings are expressed as budget authority for FY 2018 according to the CBO's most recent August 2016 baseline spending projections. Actual savings could be significantly higher, as spending amounts vary significantly based on the number of declared disasters. For example, budget authority for the DLP totaled $887 million in FY 2013.

Reform the Securities and Exchange Commission

RECOMMENDATION

Freeze the Securities and Exchange Commission (SEC) budget in real, inflation-adjusted terms. This proposal saves at least $26 million in FY 2018.

RATIONALE

The mission of the SEC is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. These are important goals. However, over the past 10 years, the SEC's budget has increased by 92 percent—almost two times faster than government as a whole, and more than four times as fast as inflation. In FY 2016, the SEC received $1.605 billion, an 8.9 percent increase over the FY 2015 spending level of $1.479 billion. The SEC budget should be frozen at its real, FY 2015 level (an amount equal to $1.574 billion in 2018 dollars). This would likely generate significantly more than the reported $26 million in FY 2018 savings, but Heritage maintains a consistently conservative method of estimating savings across proposals. (See calculations section below.)

There is no reason to believe that the previous flood of resources has improved the SEC's performance or effectiveness. In fact, the SEC has become sclerotic and moribund. It has too many layers of middle management, too many offices, and too many layers of review. It needs to be reformed and streamlined. It needs to focus on its core enforcement mission of preventing fraud and ensuring compliance with disclosure laws. What it does not need is more taxpayer money.

ADDITIONAL READING

- David Burton, "Lack of Resources Is Not the Reason for SEC Tardiness," The Daily Signal, December 10, 2013.

CALCULATIONS

Savings are expressed as budget authority. Estimated appropriations for FY 2018 are based on the FY 2016 authorized level of $1.605 billion found in the Consolidated Appropriations Act, 2016, Public Law 114–113, p. 220. Heritage assumes that the FY 2016 level holds constant in FY 2017 based on the continuing resolution passed by Congress in December 2016, and then decreases by 0.32 percent for FY 2018 in accordance with CBO's projection for overall discretionary spending in FY 2018 as reported in the CBO's most recent August 2016 baseline spending projections. This projected level of spending is compared to the FY 2015 enacted level, increased by inflation to FY 2018 dollars. This results in very small savings. However, if the SEC budget continues to rise at the rate it has in recent years, savings would be many times the level estimated here.

Eliminate the Community Development Financial Institutions Fund

RECOMMENDATION

Eliminate the Community Development Financial Institutions (CDFI) Fund. This proposal saves $243 million in FY 2018.

RATIONALE

The CDFI Fund is administered by the U.S. Department of the Treasury, and it provides grants to CDFIs, Community Development Entities (CDEs), and other private financial institutions. The stated objective of the fund is to improve the ability of private financial firms to provide credit, capital, and various financial services to underserved communities.[1]

The fund supports these institutions primarily through four programs: (1) the CDFI Program, (2) the Bank Enterprise Award Program, (3) the Native American CDFI Assistance Program, and (4) the New Markets Tax Credit Program.[2] From 2010 to 2015, more than $15 billion in taxpayer dollars has been disbursed through these programs (combined). The CDFI Fund should be shut down because it amounts to corporate welfare. Furthermore, the grants hinder competition and distort private markets, ultimately leading to higher consumer prices and further justification for increased federal spending.

CALCULATIONS

Savings are expressed as budget authority for FY 2018 according to the CBO's most recent August 2016 baseline spending projections.

Eliminate the Export–Import Bank

RECOMMENDATION

Revoke the charter of the Export–Import Bank (Ex–Im) and eliminate bank authorizations. This proposal saves about $160 million in FY 2018.

RATIONALE

Ex–Im provides subsidized financing to foreign firms and foreign governments for the purchase of American exports. The program primarily benefits very large corporations, and puts unsubsidized American firms at a competitive disadvantage and taxpayers at risk.

Those risks are ignored in reported budget figures, which assume that incoming fee collections will fully offset Ex–Im costs. This assumption fails to account for default risks. A better, fair-value accounting method that prevails in the private sector reveals an estimated 10-year cost of $1.6 billion for Ex–Im, according to the Congressional Budget Office. In the CBO's analysis of the Ex–Im program, then–CBO Director Douglas Elmendorf stated that "fair-value estimates provide a more comprehensive measure of the costs of federal credit programs, and CBO has provided fair-value estimates for many programs to help lawmakers more fully understand the trade-offs between certain policies."[3]

The bank's charter was reauthorized through 2019 as a rider to a bloated multibillion dollar transportation measure passed by the House and Senate on December 4, 2015. However, the reauthorization did not return the bank back to business as usual—that is, financing foreign deals for some of America's most successful conglomerates—because of vacancies on the board of directors.

With few exceptions, all financing that exceeds $10 million must be approved by the bank's board of directors. Under the bylaws, board action requires at least three directors. Currently, there are three vacancies on the five-member board, which means that the industrial titans that ordinarily benefited most from Ex–Im subsidies have been shut out, including the likes of Boeing, Caterpillar, General Electric, and John Deere. But Ex–Im does not need a quorum to assist the smaller exporters, who—as the U.S. Chamber of Commerce and the National Association of Manufacturers have long maintained—are their primary concern.

Ex–Im was capitalized with $1 billion in taxpayer dollars, and its financing is backed by the full faith and credit of the United States—which means that taxpayers are on the hook for any losses that the bank fails to cover with reserves.

Ex–Im's direct costs do not reflect the detrimental impact on American firms of subsidizing overseas competitors. The subsidies also distort the allocation of credit and labor. For example, job losses to domestic companies have been caused by export financing of coal mining in Colombia, copper excavation in Mexico, and airplanes for India.

There is no shortage of private financing, and Ex–Im subsidies are not needed to maintain strong levels of exports.

ADDITIONAL READING

- Diane Katz, "Export–Import Bank: Cronyism Threatens American Jobs," Heritage Foundation *Issue Brief* No. 4231, June 2, 2014.
- Diane Katz, "The Export–Import Bank: A Government Outfit Mired in Mismanagement," Heritage Foundation *Issue Brief* No. 4208, April 29, 2014.

CALCULATIONS

The CBO estimates that, under fair-value accounting, eliminating the Export–Import Bank would have resulted in savings of $1.6 billion over the 2015–2024 period ($160 million per year) as shown in Congressional Budget Office, "Testimony on Estimates of the Cost of the Credit Programs of the Export–Import Bank," June 25, 2014, p. 6.

Eliminate Funding for the Multi-State Plan Program

RECOMMENDATION

Eliminate funding for the Multi-State Plan (MSP) program. This proposal saves $1.1 million in FY 2018.

RATIONALE

Under Section 1334 of the Affordable Care Act (ACA), Congress created the MSP program, to be administered by the Office of Personnel Management (OPM). OPM was to contract with at least two insurance companies to, eventually, compete with all other private health plans in the health insurance exchanges in every state.[4]

In 2014, OPM contracted with only one large insurer, the Blue Cross and Blue Shield Association. In 2015, OPM added the so-called co-op plans to its roster of plans, even though these plans were financially unstable and about half have since collapsed. By 2017, the plans are to be available in all 50 states, but today there are plans in only 32 states, as well as the District of Columbia. The MSP enrollment is only 440,000 persons, or about 4 percent of total exchange enrollment.[5]

The MSP is not expanding market competition. In fact, the program sets standards designed to limit plan entry, and may decrease competition and further increase consolidation in the health insurance market.[6] Moreover, some MSPs are allowed to provide coverage of elective abortion under the ACA, while remaining eligible for government subsidies. This is a significant departure from the widely accepted and long-standing policy that taxpayer money should not pay for elective abortions.[7] The MSP, like the co-op program, was a substitute for the "robust" public option, a government health plan to compete with private insurance, a key feature of the original version of health reform legislation championed by the Obama Administration.

There is no need for the federal government to sponsor special health plans to compete against private health plans; the markets are already less competitive than they were before enactment of the law, and government-sponsored plans threaten to further accelerate that consolidation.

ADDITIONAL READING

- Robert E. Moffit and Neil R. Meredith, "Multistate Health Plans: Agents for Competition or Consolidation?" Mercatus Center *Working Paper*, January 2015.
- The Honorable Linda Springer et al. "The Office of Personnel Management: A Power Player in America's Health Insurance Markets?" Heritage Foundation *Lecture* No. 1145, February 19, 2010.

CALCULATIONS

Savings are expressed as budget authority based on the Office of Personnel and Management's estimated administrative expenses of $1.1 million annually for the Multi-State Plan as provided in Office of Personnel Management, "Congressional Budget Justification Fiscal Year 2017," February 2016, pp. 113 and 114, https://www.opm.gov/about-us/budget-performance/budgets/congressional-budget-justification-fy2017.pdf (accessed February 9, 2017).

Protect Freedom of Conscience in the District of Columbia

RECOMMENDATION

Protect freedom of conscience in the District of Columbia. This proposal has no budgetary impact in FY 2018.

RATIONALE

Exercising authority Congress delegated by law to the District of Columbia government, in 2015 the DC Council passed two acts that could potentially interfere with religious liberty and exercise of conscience in the District. The Reproductive Health Non-Discrimination Act (RHNDA) specifically prohibits employers from discriminating in "compensation, terms, conditions or privileges of employment" on the basis of an individual's "reproductive health decision making," including the "termination of a pregnancy." RHNDA could force pro-life organizations to violate their organizational mission and hire individuals who advocate for abortion.

Likewise, the Human Rights Amendment Act (HRAA) repealed the Nation's Capital Religious Liberty and Academic Freedom Act, popularly known as the Armstrong Amendment. Passed by Congress in 1989, the Armstrong Amendment has protected religious schools in DC from being coerced by the government into "promoting, encouraging, or condoning any homosexual act, lifestyle, orientation, or belief" if it violates their beliefs about human sexuality.

Congress should ensure that the repeal of the Armstrong Amendment does not have the effect of prohibiting religiously affiliated private schools from acting in accordance with the tenets of their faith regarding beliefs about human sexuality when performing their religious educational mission.

Congress has a special responsibility to protect the freedom of the people of the District of Columbia because of the power delegated to Congress by the U.S. Constitution (Article 1, Section 8) to "exercise exclusive Legislation in all Cases whatsoever over such District."

Congress should, therefore, displace the effects of RHNDA and HRAA by appropriate provisions in the federal DC Appropriations Act to the extent necessary to protect religious liberty and the exercise of conscience.

ADDITIONAL READING

- Ryan T. Anderson and Sarah Torre, "Congress Should Protect Religious Freedom in the District of Columbia," Heritage Foundation *Issue Brief* No. 4364, March 9, 2015.

Expand the DC Opportunity Scholarship Program

RECOMMENDATION

Expand school choice in the nation's capital through shifting funds in a budget-neutral manner. Specifically, expand the DC Opportunity Scholarship Program (OSP). This proposal has no savings for FY 2018.

RATIONALE

Policymakers can advance the goal of increasing school choice by expanding access to the OSP through existing funding authorized by the DC School Choice Incentive Act (most recently reauthorized as the Students for Opportunity and Results (SOAR) Act). These bills created and continued the OSP, which provides scholarships to children from low-income families in Washington, DC, to attend a private school of the parents' choice.

When the OSP was created in 2003, Members of Congress funded the new school choice option through what is known as the "three-sector" approach: $20 million in funding for the OSP, $20 million in supplemental funding for DC's public charter schools, and an *additional* $20 million for the DC public school system. Federal policymakers should shift a portion of the additional federal funding provided to traditional public schools in the three-sector approach to fund additional scholarships for students to attend a private school of choice.

Since the District of Columbia falls under the jurisdiction of Congress, it is appropriate for the federal government to fund the OSP. Moreover, 91 percent of students who used a voucher to attend a private school of choice graduated high school, according to a study by the U.S. Department of Education—a rate 21 percentage points higher than a control group of peers who were awarded, but did not use, a scholarship.[8] At the same time, federal policymakers are in a unique position to transition the OSP from a voucher model to an education-savings-account model, enabling parents to direct their funds to multiple education-related services, products, and providers.

ADDITIONAL READING

- Jason Bedrick and Lindsey M. Burke, "The Next Step in School Choice," *National Affairs*, No. 22 (Winter 2015).
- Lindsey M. Burke, "The Value of Parental Choice in Education: A Look at the Research," Heritage Foundation *Issue Brief* No. 4173, March 18, 2014.
- Patrick Wolf et al., "Evaluation of the DC Opportunity Scholarship Program: Final Report," U.S. Department of Education, NCEE 2010-4018, June 2010.

CALCULATIONS

The proposal shifts funding within the District of Columbia's education budget, making it a budget-neutral recommendation.

ENDNOTES

1. Community Development Financial Institutions Fund, "New Markets Tax Credit CDE Certification Application," May 2009, https://www.novoco.com/sites/default/files/atoms/files/cde_certification_application_0509.pdf (accessed December 21, 2016).
2. In 2008, the Housing and Economic Recovery Act (HERA) created a new CDFI program called the Capital Magnet Fund (CMF). As of this writing, only $80 million (in 2010) has been disbursed from the CMF. See Norbert J. Michel and John L. Ligon, "GSE Reform: Trust Funds or Slush Funds?" Heritage Foundation Issue Brief No. 4080, November 7, 2013, http://www.heritage.org/research/reports/2013/11/gse-reform-affordable-housing-trust-funds-or-slush-funds; Norbert J. Michel and John L. Ligon, "Fannie and Freddie Will Finance a New Source for Affordable Housing Funds," The Daily Signal, March 3, 2015, http://dailysignal.com/2015/03/03/fannie-freddie-will-finance-new-source-affordable-housing-funds/; and U.S. Department of Treasury, "Capital Magnet Fund: Interim Impact Assessment," March 2014, https://www.cdfifund.gov/Documents/CMF_Impact_Assessment.pdf (accessed December 21, 2016).
3. Congressional Budget Office, "Testimony on Estimates of the Cost of the Credit Programs of the Export–Import Bank," June 25, 2014, http://www.cbo.gov/publication/45468 (accessed January 11, 2016).
4. The Honorable Linda Springer et al., "The Office of Personnel Management: A Power Player in America's Health Insurance Markets?" Heritage Foundation Lecture No. 1145, February 19, 2010, http://www.heritage.org/research/lecture/the-office-of-personnel-management-a-power-player-in-americas-health-insurance-markets.
5. Rachana Pradhan and Paul Demko, "Another Piece of Obamacare Falls Short," *Politico*, September 7, 2016, http://www.politico.com/story/2016/09/obamacare-falls-short-227854 (accessed February 9, 2017).
6. Robert E. Moffit and Neil R. Meredith, "Multistate Health Plans: Agents for Competition or Consolidation?" Mercatus Center Working Paper, January 13, 2015, http://mercatus.org/publication/health-insurance-multi-state-plan-program-competition (accessed November 17, 2015).
7. Sarah Torre, "Obamacare's Many Loopholes: Forcing Individuals and Taxpayers to Fund Elective Abortion Coverage," Heritage Foundation Backgrounder No. 2872, January 13, 2014, http://www.heritage.org/research/reports/2014/01/obamacares-many-loopholes-forcingindividuals-and-taxpayers-to-fund-elective-abortion-coverage.
8. Patrick Wolf et al., "Evaluation of the DC Opportunity Scholarship Program: Final Report," U.S. Department of Education, NCEE 2010-4018, June 2010, https://ies.ed.gov/ncee/pubs/20104018/pdf/20104018.pdf (accessed February 9, 2017).