

Note 25. Subsequent Events

Disaster Relief

In August and September of 2017, Hurricanes Harvey, Irma, and Maria struck the continental United States, Puerto Rico and the U.S. Virgin Islands. While the full future effect of these disasters is still unknown, there will be an impact on some federal government entities as a result in assisting these areas as they strive to recover. The fiscal year 2017 financial statements did not reflect any liabilities for additional disaster relief amounts that may be authorized by legislation enacted after September 30, 2017. The SBA has begun to increase its rate of administrative spending as it conducts its disaster response. This spending is consistent with the Agency's experience in responding to prior disasters. The SBA could experience future variations in the performance of existing disaster and business loan portfolios as businesses in the affected areas strive to recover.

Congress enacted the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017 (Pub.L. 115-72) on October 26, 2017 as a result of the hurricanes. This Act provides Federal Emergency Management Agency's (FEMA) Disaster Relief Fund with an additional \$13.8 billion for response and recovery activity, and FEMA's Disaster Assistant Direct Loan Program \$4.9 billion for direct loans to assist local governments in providing essential services. The act also provides debt relief and additional borrowing authority for the National Flood Insurance Program (NFIP) by canceling \$16.0 billion of the NFIP's debt to Treasury.

Statutory Debt Limit

As of September 30, 2017, debt subject to the statutory debt limit was \$20,208.6 billion, as stated in Note 11—Federal Debt Securities Held by the Public and Accrued Interest. However, per P.L. 115-56, the statutory debt limit was temporarily suspended through December 8, 2017. Effective December 9, 2017, the statutory debt limit was set at \$20,456.0 billion and on Monday, December 11, 2017, the Secretary of the Treasury notified the Congress that the statutory debt limit would be reached on or after that day. Treasury began to depart from its normal debt management procedures and invoke legal authorities to avoid exceeding the statutory debt limit on December 11, 2017. See Note 11—Federal Debt Securities Held by Public and Accrued Interest for further information.

Tax Reform

As stated in Note 23, the Statement of Long-Term Fiscal Projections is based on current policy that was in effect on September 30, 2017, and does not reflect legislation enacted after that date. Therefore, such projections do not reflect legislation enacted subsequent to September 30 that changes policy that was in effect as of the end of the fiscal year. Subsequent to the end of the fiscal year, and after the preparation of the long-term fiscal projections (LTFP), Congress passed and on December 22, 2017, the President signed the *Tax Cuts and Jobs Act* (P.L. 115-97), which enacts comprehensive reforms to the tax code. The Joint Committee on Taxation (JCT) estimated that the outlays and receipt effects of the enacted law will increase deficits from 2018 through 2027 by \$1.5 trillion, primarily due to lower tax receipts. According to the JCT estimates, the deficit effects peak at 1.4 percent of GDP in 2019 and fall to 0.4 percent of GDP by 2025, after which many of the provisions in the bill affecting individual income taxes expire. The JCT also provided supplemental estimates of the macroeconomic effect of the law that indicated the tax changes would boost GDP growth, producing increased receipts that would offset a significant portion of the law's effect on the deficit. The Statement of LTFP and Note 23 in next year's *Financial Report* will incorporate the effects of the law on the long-range receipt projection, based on an updated economic forecast from the Social Security trustees that reflects the tax law and other economic developments in the period since the previous forecast was prepared. At the time the *Financial Report* was issued, management had not assessed the impact of the *Tax Cuts and Jobs Act* on the Statement of LTFP.

GSEs

On December 22, 2017, the Department of the Treasury and FHFA agreed to modify the Senior Preferred Stock Purchase Agreements (SPSPAs) between Treasury and the GSEs to increase the capital reserve amount for each GSE to \$3 billion, effective with the December 2017 dividend payment. Absent the agreement, the GSEs' capital reserves would have declined to zero on January 1, 2018. In exchange for the increase in the capital reserve, Treasury's liquidation preference in each GSE increased by \$3 billion on December 31, 2017.

The reduction in the U.S. corporate income tax rate resulting from the enactment of the *Tax Cuts and Jobs Act* on December 22, 2017, required that each of Fannie Mae and Freddie Mac record a reduction in the value of their deferred tax assets in the quarter in which the legislation was enacted, impacting potential future draws. The funding draws and the associated amounts are expected to be realized in March 2018. Refer to Note 8—Investments in Government Sponsored Enterprises for additional information.