

SECTION 84—CHARACTER CLASSIFICATION (SCHEDULE C)

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Summary of Changes

Requires agencies to report total budget authority and outlays net of offsetting collections (section 84.3).

Drops the R&D crosscut on partnership for a new generation of vehicles, formerly character classification code 1462 (section 84.4).

84.1 What is the purpose of the character classification system?

We use character classification to distinguish between investment and non-investment activities. Investments finance activities that yield benefits largely in the future. We also use character classification to report data on grants to State and local governments separately from direct Federal programs. Character class line numbers include the following:

- Investment activities:
 - ▶ Lines 13xx, physical assets.
 - ▶ Lines 14xx, research and development (R&D).
 - ▶ Lines 15xx, education and training.
- Non-investment activities:
 - ▶ Lines 2xxx.

The classification system also includes additional information on R&D (e.g., R&D performed by colleges and universities, the allocation of R&D funds, and R&D crosscuts) that is used by OMB and others in the review of agency budget requests, Government-wide resource allocation, and R&D budget presentations.

See exhibit [84A](#) for a summary of character classification line numbers. See section [84.4](#) for detailed descriptions of all of the line numbers that you must use to report character classification.

84.2 What terms do I need to know?

(a) *State or local governments.*

For preparing character classification data, State or local governments include the following:

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- The 50 States and the District of Columbia.
- Cities, counties, townships, school districts, special districts, and other local governmental units, as defined by the Bureau of the Census.
- Puerto Rico, the Virgin Islands, and other U.S. territories.
- The Federated States of Micronesia, Marshall Islands, and Palau, if the payments are a relatively small part of the accounts that have grants to State or local governments.
- Indian Tribal governments when:
 - ▶ The legislation authorizing the payment includes such entities within the definition of eligible State or local units.
 - ▶ The Tribal government acts as a nonprofit agency operating under State or local auspices.
- Quasi-public nonprofit entities, such as community action agencies, when the boards of such entities must either be elected in State or local elections, or must include significant representation of State or locally-elected officials.

(b) *Grants to State and local governments.*

Report budget authority and outlays as grants to State and local governments if the Federal government's resources support State or local programs of government operations or provision of services to the public. For reporting character classification data, grants include the following:

- Direct cash grants to State or local governmental units, to other public bodies established under State or local law, or to their designee.
- Payments for grants-in-kind, such as purchases of commodities distributed to State or local governmental institutions, for example, school lunch programs.
- Payments to nongovernmental entities when such payments result in cash or in-kind services or products that are passed on to State or local governments, for example, payments to the Corporation for Public Broadcasting, or to the American Printing House for the Blind.
- Payments to regional commissions and organizations that are redistributed at the State or local level to provide public services.
- Payments to State and local governments for research and development that is an integral part of the State and local governments' provision of services to the general public (e.g., research on crime control financed from law enforcement assistance grants, or on mental health associated with the provision of mental rehabilitation services; see discussion below for exclusions related to research and development and payments for services rendered).
- Direct loan or loan guarantee subsidies to State or local governments.
- Shared revenues. These payments to State or local governments are computed as a percentage of the proceeds from the sale of certain Federal property, products, or services (e.g., payments from receipts of Oregon and California grant lands). Also included are tax or other collections by the

Federal Government that are passed on to State or local governments (e.g., internal revenue collections for Puerto Rico).

Exclude the following:

- Federal administrative expenses associated with grant programs.
- Grants directly to profit-making institutions, individuals, and non-profit institutions not covered above, for example, payments to Job Corps centers and trainees.
- Payments for research and development not directly related to the provision of services to the general public, for example, basic research awarded via competitive grants.
- Payments for services rendered, for example, utility services, training programs and expenses for Federal employees, research and development for Federal purposes conducted under contracts, grants, or agreements by such agencies as the National Institutes of Health (NIH), the National Science Foundation (NSF), the Department of Energy (DOE), the National Aeronautics and Space Administration (NASA), and the Department of Defense (DOD).
- Federal grants to cover administrative expenses for regional bodies and other funds not redistributed to the States or their subordinate jurisdictions, for example, the administrative expenses of the Appalachian Regional Commission.

(c) *Direct Federal programs.*

Federal programs that are not classified as grants to State and local governments will be classified as direct Federal programs.

84.3 What do I need to know about reporting the data and relationships with other data requirements?

(a) *Expenditure accounts.*

Report total budget authority and outlays net of offsetting collections. This means that the sum of budget authority and outlay entries in schedule C (excluding memorandum entries) will equal budget authority and outlays net of offsetting collections in schedule A.

You must report offsetting collections from the sale of physical assets (e.g. land, structures, equipment, or commodities) in the corresponding physical asset character classes.

You must report credit reform program accounts related to investments (i.e., for physical assets, the conduct of research and development, or the conduct of education and training) net of offsetting collections.

You must report budget authority and outlays by subfunction.

Do not report character class for credit financing accounts.

OMB does not control the character classification of expenditure accounts. If the nature of an account changes and requires the use of different classes, you may enter budget authority and outlays in MAX under the appropriate character class without advance approval from OMB.

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As a general rule, if a transaction fits into more than one classification, report it in the classification category with the lowest numerical character classification code. For example, record amounts for construction of research and development facilities in the appropriate 13xx grouping, not in the 14xx grouping. (For treatment of memorandum entries, see section [84.3\(c\)](#) and exhibit [84A](#).)

If grants to State or local governments or investments are financed by payments from one Federal account to a second Federal account, you must ensure that the amounts are recorded as grants or investments only once (i.e., ensure that they are not double-counted). As a general rule, the amounts should be recorded as follows:

- For all grants to State or local governments, record the grants in the second account, i.e., the account that actually makes the payment to the State or local government.
- For direct Federal investment (which includes all investments except grants to State or local governments), record the investment in the account that is primarily responsible for funding the investment. (Note that grants to research institutions are classified as direct Federal investment, not as grants to State or local governments (see section [84.2](#) above)). This is usually the initial account. For example, if the Environmental Protection Agency provides funds to the National Science Foundation for research, record the R&D in the EPA account that funds the research, not in NSF. However, in certain cases, primary responsibility might occur in the second account. For example, regarding rental payments to the GSA Federal Buildings Fund, some of the rental receipts may ultimately be used for construction by GSA. In these situations, the investment should be recorded in the second account because primary responsibility for the investment would be in that account.

Where accounts are split between two or more character classifications, omit a classification involving less than \$1 million in each of the three fiscal years, and include the amounts in some larger classification for that particular account.

Grants: You must report grants by BEA subcategory (e.g. discretionary or mandatory). (See section [81.3](#) and exhibit [84A](#).) In some cases, grants to State and local governments allow the recipient jurisdiction the option of using funds for current or investment-type purposes, such as in community development block programs. In such instances, record all of the budget authority and outlays for grants in the category where the majority of the funds is anticipated to be used.

R&D: Schedule C contains memorandum entries on lines 1441–01 through 1465–xx that supplement, and are a subset of, R&D information reported on lines 1311–xx through 1432–xx. Use these entries to report the following information:

- Direct and indirect costs associated with R&D performed by colleges and universities.
- Allocation of research funds (congressional direction, inherently unique, merit reviewed with limited competitive selection, merit reviewed with competitive selection and internal (program) evaluation, and merit-reviewed with competitive selection and external (peer) evaluation).
- Crosscutting R&D data for specific areas identified by the National Science and Technology Council (NSTC).

(b) *Receipt accounts.*

You must also report offsetting receipts for PY through BY by character class in schedules K and R (see section [81.4](#)). OMB controls the character classification of offsetting receipts centrally, and you must ask

your OMB representative to change the classification (see section [79.1](#)) before you can enter data under a different code.

Report character class information for collections deposited in offsetting receipt accounts in schedules K (baseline) and R (policy) using the instructions in section 81.4 (e). You must use line 2004–xx for offsetting receipt accounts, with the following two exceptions:

- You must report the proceeds from the sale of physical assets (e.g., land, structures, equipment, or commodities) in the corresponding physical asset character classes; and
- You must report credit reform offsetting receipt accounts for downward reestimates and negative subsidies for investment-related programs (i.e., for physical assets or for the conduct of education and training) on the appropriate investment line number (i.e., 13xx or 1512).

(c) *Relationships with other data requirements.*

For each account, the totals for character class entries in schedule C (excluding the memorandum (non-add) entries) must equal total budget authority and outlays net of offsetting collections reported in schedule A in each year.

You should be able to reconcile information reported in this schedule related to the conduct of research and development with information reported in the National Science Foundation Annual Survey of Federal Funds for Research and Development (see description of line 14xx).

Actual outlays for past year grants and shared revenue must be consistent with the respective amounts reported to the Department of Commerce, Bureau of the Census, pursuant to the instructions regarding its "Federal Aid to States" publication.

(d) *Outyear projections.*

MAX will automatically generate outyear projections of character class data (except memorandum entries) based on in-year data. For grants to State and local governments, outyear projections will be generated through BY+9; and, for direct Federal programs, outyear projections will be generated through BY+4.

Using an algorithm, MAX will assume that the percentage of net budget authority and outlays estimated for a character class for outyears is the same as that reported in the BY. For example, if 18 percent of net budget authority in the account is on line 1511–01 (grants for education and training) in BY, then 18 percent of net budget authority will be estimated on line 1511–01 for each outyear. Agencies may view these outyear projections on-screen. If projections do not accurately reflect outyear policy, you may override the projections by entering the correct amounts (not percentages) directly into MAX.

84.4 How do I report character classification in MAX?

Character class data in schedules C, K, and R are identified by a line number that consists of a four-digit number and a two-digit suffix (xxxx–xx). The line number identifies data as investment or noninvestment, and as grants or direct Federal programs.

Classify all investment activities in the 1xxx series and all noninvestment activities in the 2xxx series. For credit program accounts, classify subsidies for direct loans and loan guarantees and their administrative expenses according to the purpose of the program. For example, credit subsidies for construction should be in the character class for construction and rehabilitation, and credit subsidies for the conduct of education should be in the character class for the conduct of education and training.

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The two-digit suffix differentiates among budget authority, outlays, and offsetting receipts, as follows:

- 01—Budget authority.
- 02—Outlays.
- 03—Offsetting receipts.

Ensure that data are reported in the correct categories. For example, report data on R&D activities using the appropriate R&D character class entries (see exhibit [84B](#) and the listing of R&D memorandum entries below). Report data on activities other than R&D in non-R&D character classes. Only some of the following codes apply to offsetting receipts; they are specifically noted below with an asterisk (*). All of the line numbers apply to budget authority and outlays except lines 1441 and 1442, which apply only to budget authority.

The following table indicates the line numbers you use to report character classification. See exhibit [84A](#) for a summary of the coding structure, and exhibit [84B](#) for a summary of the R&D categories.

Entry	Description
1xxx INVESTMENT ACTIVITIES	Budget authority, outlays, or offsetting receipts for programs that yield benefits largely in the future.
13xx Physical assets:	Amounts for the purchase, construction, manufacture, rehabilitation, or major improvement of physical assets regardless of whether the assets are owned or operated by the Federal Government, States, municipalities, or private individuals. Physical assets are land, structures, equipment, and intellectual property (e.g., software) that have an estimated useful life of two years or more; and commodity inventories. The cost of the asset includes both its purchase price and all other costs incurred to bring it to a form and location suitable for its use.
131xx Construction and rehabilitation:	Amounts for construction and rehabilitation, including both grants and direct Federal programs. Construction and rehabilitation means the design and production of fixed works and structures or substantial alterations to such structures or land. Includes new works and major additions, alterations, improvements to and replacements of existing works. Excludes preliminary surveys, maintenance, repair, administration of such facilities and other Federal operating expenses.
Research and development facilities:	Amounts for the construction and rehabilitation of research and development facilities (see category 14xx for the definition of research and development).
1311–xx Grants to State and local governments	
1312–xx Direct Federal programs	Includes the acquisition, design, and construction of, or major repairs or alterations to, all physical facilities for use in R&D activities. Facilities include land, buildings, and fixed capital equipment, regardless of whether the facilities are to be used by the Government or by a private organization, and regardless of where title to the property may rest. Includes the international space station and such fixed facilities as reactors, wind tunnels, and particle accelerators.

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Entry	Description
	<p>Include:</p> <ul style="list-style-type: none"> • Construction of R&D facilities only. <p>Exclude:</p> <ul style="list-style-type: none"> • Other facility funding (show on line 1313–xx or 1314–xx). • Movable R&D equipment (show on line 132x–xx).
<p>Other construction and rehabilitation:</p> <p>1313–xx Grants to State and local governments</p> <p>1314–xx Direct Federal programs</p>	<p>Amounts for all other construction and rehabilitation.</p>
<p>132x Major equipment:</p>	<p>Amounts for identifiable items of major equipment, including information technology (see section 53), vehicles, ships, machine tools, aircraft, tanks, satellites and other physical assets in space, and nuclear weapons. Excludes routine purchases of ordinary office equipment or furniture and fixtures. However, where there are major programs for acquisition of equipment, includes all equipment purchases.</p>
<p>Research and development equipment:</p> <p>1321–xx Grants to State and local governments</p> <p>1322–xx Direct Federal programs</p>	<p>Amounts for major equipment for research and development. (See category 14xx for the definition of research and development.) Includes acquisition or design and production of movable equipment, such as spectrometers, research satellites, detectors, and other instruments. At a minimum, this should include programs devoted to the purchase or construction of R&D equipment.</p>
<p>Other major equipment:</p> <p>1323–xx Grants to State and local governments</p> <p>1324–xx Direct Federal programs</p>	<p>Amounts for all other major equipment.</p>
<p>Commodity inventories:</p> <p>1330–xx* Direct Federal programs</p> <p>Proceeds from the sale of commodities</p>	<p>Amounts for federally-owned commodities held for resale or in stockpiles.</p> <p>Offsetting receipts collected from the sale of federally-owned commodities that were previously purchased by the government or from reduction in stockpiles.</p>
<p>Purchases and sales of land and structures for Federal use:</p> <p>1340–xx* Direct Federal programs</p> <p>Receipts from sales of property or assets</p>	<p>Amounts for purchase, including lease-purchases, of land and structures for use by the Federal Government and sales of such land and structures. Includes office buildings and park and forest lands. Does not include land or structures acquired as temporary inventory, such as collateral on defaulted loans.</p> <p>Offsetting receipts collected from sales of federally-owned property or assets used by the Federal Government. Includes office buildings and park and forest lands.</p>

