# BUDGET CONCEPTS AND BUDGET PROCESS

# 9. BUDGET CONCEPTS

The budget system of the United States Government provides the means for the President and the Congress to decide how much money to spend, what to spend it on, and how to raise the money they have decided to spend. Through the budget system, they determine the allocation of resources among the agencies of the Federal Government and between the Federal Government and the private sector. The budget system focuses primarily on dollars, but it also allocates other resources, such as Federal employment. The decisions made in the budget process affect the Nation as a whole, State and local governments, and individual Americans. Many budget decisions have worldwide significance. The Congress and the President enact budget decisions into law. The budget system ensures that these laws are carried out.

This chapter provides an overview of the budget system and explains some of the more important budget concepts. It includes summary dollar amounts to illustrate major concepts. Other chapters of the budget documents discuss these amounts and more detailed amounts in greater depth.

The following section discusses the budget process, covering formulation of the President's Budget, action by the Congress, and execution of enacted budget laws. The next section provides information on budget coverage, including a discussion of on-budget and off-budget amounts, functional classification, presentation of budget data, types of funds, and full-cost budgeting. Subsequent sections discuss the concepts of receipts and collections, budget authority, and outlays. These sections are followed by discussions of Federal credit; surpluses, deficits, and means of financing; Federal employment; and the basis for the budget figures. A glossary of budget terms appears at the end of the chapter.

Various laws, enacted to carry out requirements of the Constitution, govern the budget system. The chapter refers to the principal ones by title throughout the text and gives complete citations in the section just preceding the glossary.

## THE BUDGET PROCESS

The budget process has three main phases, each of which is related to the others:

1. Formulation of the President's Budget;
2. Action by the Congress; and
3. Execution of enacted budget laws.

### Formulation of the President's Budget

The Budget of the United States Government consists of several volumes that set forth the President's fiscal policy goals and priorities for the allocation of resources by the Government. The primary focus of the Budget is on the budget year—the next fiscal year for which the Congress needs to make appropriations, in this case 2015. (Fiscal year 2015 will begin on October 1, 2014, and end on September 30, 2015.) The Budget also covers the nine years following the budget year in order to reflect the effect of budget decisions over the longer term. It includes the funding levels provided for the current year, in this case 2014, which allows the reader to compare the President's Budget proposals with the most recently enacted levels. The Budget also includes data on the most recently completed fiscal year, in this case 2013, so that the reader can compare budget estimates to actual accounting data.

In a normal year, the President begins the process of formulating the budget by establishing general budget and fiscal policy guidelines, usually by the spring of each year, at least nine months before the President transmits the budget to the Congress and at least 18 months before the fiscal year begins. (See the "Budget Calendar" later in this chapter.) Based on these guidelines, the Office of Management and Budget (OMB) works with the Federal agencies to establish specific policy directions and planning levels, both for the budget year and for at least the following four years, and in this case, the following nine years, to guide the preparation of their budget requests.

During the formulation of the budget, the President, the Director of OMB, and other officials in the Executive Office of the President continually exchange information, proposals, and evaluations bearing on policy decisions with the Secretaries of the departments and the heads of the other Government agencies. Decisions reflected in previously enacted budgets, including the one for the fiscal year in progress, reactions to the last proposed budget (which the Congress is considering at the same time the process of preparing the forthcoming budget begins), and evaluations of program performance all influence decisions concerning the forthcoming budget, as do projections of the economic outlook, prepared jointly by the Council of Economic Advisers, OMB, and the Treasury Department.

In early fall, agencies submit their budget requests to OMB, where analysts review them and identify issues that OMB officials need to discuss with the agencies. OMB and the agencies resolve many issues themselves. Others require the involvement of White House policy officials and the President. This decision-making process is usually completed by late December. At that time, the final stage of developing detailed budget data and the preparation of the budget documents begins.

The decision-makers must consider the effects of economic and technical assumptions on the budget estimates. Interest rates, economic growth, the rate of inflation, the unemployment rate, and the number of people eligible for various benefit programs, among other factors, affect Government spending and receipts. Small changes in these assumptions can alter budget estimates by many billions of dollars. (Chapter 2, "Economic Assumptions and Interactions with the Budget," provides more information on this subject.)

Thus, the budget formulation process involves the simultaneous consideration of the resource needs of individual programs, the allocation of resources among the agencies and functions of the Federal Government, and the total outlays and receipts that are appropriate in light of current and prospective economic conditions.

The law governing the President's budget requires its transmittal to the Congress on or after the first Monday in January but not later than the first Monday in February of each year for the following fiscal year, which begins on October 1. The budget is routinely sent to the Congress on the first Monday in February, giving the Congress eight months to act on the budget before the fiscal year begins. For various reasons, on occasion parts or all of the budget documents have been transmitted after the scheduled date. In some years, the late or pending enactment of appropriations acts, other spending legislation, and tax laws considered in the previous budget cycle have delayed preparation and transmittal of complete budgets. For this reason, President Reagan submitted his budget for 1988 forty-five days after the date specified in law. For the 2015 Budget, because of the 17-day shutdown in October and uncertainty over 2014 appropriations, which were completed in mid-January, OMB was unable to provide by the date specified in law the material normally contained in the President's Budget.

### Congressional Action[1]

The Congress considers the President's budget proposals and approves, modifies, or disapproves them. It can change funding levels, eliminate programs, or add programs not requested by the President. It can add or eliminate taxes and other sources of receipts or make other changes that affect the amount of receipts collected.

The Congress does not enact a budget as such. Through the process of adopting a planning document called a budget resolution (described below), the Congress agrees on targets for total spending and receipts, the size of the deficit or surplus, and the debt limit. The budget resolution provides the framework within which individual congressional committees prepare appropriations bills and other spending and receipts legislation. The Congress provides spending authority—funding—for specified purposes in appropriations acts each year. It also enacts changes each year in other laws that affect spending and receipts. Both appropriations acts and these other laws are discussed in the following paragraphs.

In making appropriations, the Congress does not vote on the level of outlays (spending) directly, but rather on budget authority, or funding, which is the authority provided by law to incur financial obligations that will result in outlays. In a separate process, prior to making appropriations, the Congress usually enacts legislation that authorizes an agency to carry out particular programs, authorizes the appropriation of funds to carry out those programs, and, in some cases, limits the amount that can be appropriated for the programs. Some authorizing legislation expires after one year, some expires after a specified number of years, and some is permanent. The Congress may enact appropriations for a program even though there is no specific authorization for it or its authorization has expired.

The Congress begins its work on its budget resolution shortly after it receives the President's budget. Under the procedures established by the Congressional Budget Act of 1974, the Congress decides on budget targets before commencing action on individual appropriations. The Act requires each standing committee of the House and Senate to recommend budget levels and report legislative plans concerning matters within the committee's jurisdiction to the Budget Committee in each body. The House and Senate Budget Committees then each design and report, and each body then considers, a concurrent resolution on the budget—a congressional budget plan, or budget resolution. The budget resolution sets targets for total receipts and for budget authority and outlays, both in total and by functional category (see "Functional Classification" later in this chapter). It also sets targets for the budget deficit or surplus and for Federal debt subject to statutory limit.

The congressional timetable calls for the House and Senate to resolve differences between their respective versions of the congressional budget resolution and adopt a single budget resolution by April 15 of each year.

In the report on the budget resolution, the Budget Committees allocate the total on-budget budget authority and outlays set forth in the resolution to the Appropriations Committees and the other committees that have jurisdiction over spending. (See "Coverage of the Budget," later in this chapter, for more information on on-budget and off-budget amounts.) Now that the BCA has set statutory limits on discretionary budget authority, as discussed below, the budget resolution allocation to the Appropriations Committees will equal those limits. Once the Congress resolves differences between the House and Senate and agrees on a budget resolution, the Appropriations Committees are required to divide their allocations of budget authority and outlays among their subcommittees. There are procedural hurdles associated with considering appropriations bills (so-called "discretionary" spending) that would breach or further breach an Appropriations subcommittee's target. Similar procedural

[1] For a fuller discussion of the congressional budget process, see Bill Heniff Jr., Introduction to the Federal Budget Process (Congressional Research Service Report 98–721), and Robert Keith and Allen Schick, Manual on the Federal Budget Process (Congressional Research Service Report 98–720, archived).

hurdles exist for considering legislation that would cause the overall spending target for any such committee to be breached or further breached. The Budget Committees' reports may discuss assumptions about the level of funding for major programs. While these assumptions do not bind the other committees and subcommittees, they may influence their decisions.

The budget resolution may also contain "reconciliation directives" (discussed below) to the committees responsible for tax laws and for mandatory spending—programs not controlled by annual appropriation acts—in order to conform the level of receipts and this type of spending to the targets in the budget resolution.

Since the concurrent resolution on the budget is not a law, it does not require the President's approval. However, the Congress considers the President's views in preparing budget resolutions, because legislation developed to meet congressional budget allocations does require the President's approval. In some years, the President and the joint leadership of Congress have formally agreed on plans to reduce the deficit or balance the budget. These agreements were then reflected in the budget resolution and legislation passed for those years.

Once the Congress approves the budget resolution, it turns its attention to enacting appropriations bills and authorizing legislation. Appropriations bills are initiated in the House. They provide the budgetary resources for the majority of Federal programs, but only a minority of Federal spending. The Appropriations Committee in each body has jurisdiction over annual appropriations. These committees are divided into subcommittees that hold hearings and review detailed budget justification materials prepared by the Executive Branch agencies within the subcommittee's jurisdiction. After a bill has been drafted by a subcommittee, the full committee and the whole House, in turn, must approve the bill, sometimes with amendments to the original version. The House then forwards the bill to the Senate, where a similar review follows. If the Senate disagrees with the House on particular matters in the bill, which is often the case, the two bodies form a conference committee (consisting of some Members of each body) to resolve the differences. The conference committee revises the bill and returns it to both bodies for approval. When the revised bill is agreed to, first in the House and then in the Senate, the Congress sends it to the President for approval or veto.

Since 1977, when the start of the fiscal year was established as October 1, there have been only three fiscal years (1989, 1995, and 1997) for which the Congress agreed to and enacted every regular appropriations bill by that date. When one or more appropriations bills has not been agreed to by this date, Congress usually enacts a joint resolution called a "continuing resolution," (CR) which is an interim or stop-gap appropriations bill that provides authority for the affected agencies to continue operations at some specified level until a specific date or until the regular appropriations are enacted. Occasionally, a CR has funded a portion or all of the Government for the entire year.

The Congress must present these CRs to the President for approval or veto. In some cases, Presidents have rejected CRs because they contained unacceptable provisions. Left without funds, Government agencies were required by law to shut down operations—with exceptions for some limited activities—until the Congress passed a CR the President would approve. Shutdowns have lasted for periods of a day to several weeks.

The Congress also provides budget authority in laws other than appropriations acts. In fact, while annual appropriations acts fund the majority of Federal programs, they account for only about a third of the total spending in a typical year. Authorizing legislation controls the rest of the spending, which is commonly called "mandatory spending." A distinctive feature of these authorizing laws is that they provide agencies with the authority or requirement to spend money without first requiring the Appropriations Committees to enact funding. This category of spending includes interest the Government pays on the public debt and the spending of several major programs, such as Social Security, Medicare, Medicaid, unemployment insurance, and Federal employee retirement. This chapter discusses the control of budget authority and outlays in greater detail under "Budget Authority and Other Budgetary Resources, Obligations, and Outlays." Almost all taxes and most other receipts also result from authorizing laws. Article I, Section 7, of the Constitution provides that all bills for raising revenue shall originate in the House of Representatives. In the House, the Ways

**BUDGET CALENDAR**

The following timetable highlights the scheduled dates for significant budget events during a normal budget year:

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| Between the 1st Monday in January and the 1st Monday in February | President transmits the budget |
| Six weeks later | Congressional committees report budget estimates to Budget Committees |
| April 15 | Action to be completed on congressional budget resolution |
| May 15 | House consideration of annual appropriations bills may begin even if the budget resolution has not been agreed to. |
| June 10 | House Appropriations Committee to report the last of its annual appropriations bills. |
| June 15 | Action to be completed on "reconciliation bill" by the Congress. |
| June 30 | Action on appropriations to be completed by House |
| July 15 | President transmits Mid-Session Review of the Budget |
| October 1 | Fiscal year begins |

and Means Committee initiates tax bills; in the Senate, the Finance Committee has jurisdiction over tax laws.

The budget resolution often includes reconciliation directives, which require authorizing committees to change laws that affect receipts or mandatory spending. They direct each designated committee to report amendments to the laws under the committee's jurisdiction that would achieve changes in the levels of receipts or reductions in mandatory spending controlled by those laws. These directives specify the dollar amount of changes that each designated committee is expected to achieve, but do not specify which laws are to be changed or the changes to be made. However, the Budget Committees' reports on the budget resolution frequently discuss assumptions about how the laws would be changed. Like other assumptions in the report, they do not bind the committees of jurisdiction but may influence their decisions. A reconciliation instruction may also specify the total amount by which the statutory limit on the public debt is to be changed.

The committees subject to reconciliation directives draft the implementing legislation. Such legislation may, for example, change the tax code, revise benefit formulas or eligibility requirements for benefit programs, or authorize Government agencies to charge fees to cover some of their costs. Reconciliation bills are typically omnibus legislation, combining the legislation submitted by each reconciled committee in a single act.

Such a large and complicated bill would be difficult to enact under normal legislative procedures because it usually involves changes to tax rates or to popular social programs, generally to reduce projected deficits. The Senate considers such omnibus reconciliation acts under expedited procedures that limit total debate on the bill. To offset the procedural advantage gained by expedited procedures, the Senate places significant restrictions on the substantive content of the reconciliation measure itself, as well as on amendments to the measure. Any material in the bill that is extraneous or that contains changes to the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance programs is not in order under the Senate's expedited reconciliation procedures. Non-germane amendments are also prohibited. In addition, the Senate does not allow reconciliation bills as a whole to increase projected deficits or reduce projected surpluses. This Senate prohibition complements the Statutory Pay-As-You-Go Act of 2010, discussed below. The House does not allow reconciliation bills to increase mandatory spending in net, but does allow such bills to increase deficits by reducing revenues. See "Budget Enforcement" below for a description of the House special order that permits the Budget Committee Chairman to certify that the costs of certain types of legislation are zero.

Reconciliation acts, together with appropriations acts for the year, are usually used to implement broad agreements between the President and the Congress on those occasions where the two branches have negotiated a comprehensive budget plan. Reconciliation acts have sometimes included other matters, such as laws providing the means for enforcing these agreements, as described under "Budget Enforcement."

## Budget Enforcement

The Statutory Pay-As-You-Go Act of 2010 and the Budget Control Act of 2011 (BCA) significantly amended laws pertaining to the budget process, including the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA). The Statutory Pay-As-You-Go Act of 2010, enacted on February 12, 2010, reestablished a statutory procedure to enforce a rule of deficit neutrality on new revenue and mandatory spending legislation. The BCA, enacted on August 2, 2011, reinstated limits ("caps") on the amount of discretionary budget authority that can be provided through the annual appropriations process. Similar enforcement mechanisms were established by the Budget Enforcement Act of 1990, which also amended the BBEDCA, and were extended in 1993 and 1997, but expired at the end of FY 2002. The BCA also created a Joint Select Committee on Deficit Reduction that was instructed to develop a bill to reduce the Federal deficit by at least $1.5 trillion over a 10-year period.

The BBEDCA, as amended, divides spending into two types—discretionary spending and direct or mandatory spending. Discretionary spending is controlled through annual appropriations acts. Funding for salaries and other operating expenses of government agencies, for example, is generally discretionary because it is usually provided by appropriations acts. Direct spending is more commonly called mandatory spending. Mandatory spending is controlled by permanent laws. Medicare and Medicaid payments, unemployment insurance benefits, and farm price supports are examples of mandatory spending, because permanent laws authorize payments for those purposes. Receipts are included under the same statutory rules that apply to mandatory spending because permanent laws generally control receipts.

***Discretionary cap enforcement.*** The BBEDCA, as amended, specifies spending limits ("caps") on discretionary budget authority for 2012 through 2021. The caps originally established by the BCA were divided between security and nonsecurity categories for 2012 and 2013, with a single cap for all discretionary spending established for 2014 through 2021. The security category includes discretionary budget authority for the Departments of Defense, Homeland Security, and Veterans Affairs, the National Nuclear Security Administration, the Intelligence Community Management account, and all budget accounts in the international affairs budget function (budget function 150). The nonsecurity category includes all discretionary budget authority not included in the security category. For 2013 through 2021, the failure of the Joint Select Committee on Deficit Reduction to propose, and Congress to enact, a bill that reduced the deficit by at least $1.2 trillion resulted in revised security and nonsecurity categories. The "revised security category" (or defense category) includes discretionary budget authority in the defense budget function 050, which primarily consists of the Department of Defense. The "revised nonsecurity category" (or non-defense category) includes all discretionary budget authority not included in the defense budget function 050. Passage of the American Taxpayer

Relief Act of 2012 (ATRA) in January of 2013 restored the caps for fiscal year 2013 to the security and nonsecurity split, and reduced the levels previously provided in law by $4 billion in 2013 (split equally between the security and nonsecurity categories) and $8 billion in 2014 (split equally between the revised security and nonsecurity, or defense and nondefense categories). The Bipartisan Budget Act of 2013 (BBA) set new discretionary caps for 2014 at $520.5 billion for the revised security category and $491.8 billion for the revised nonsecurity category and for 2015 at $521.3 billion for the revised security category and $492.4 billion for the revised nonsecurity category. In addition, the BBA reaffirmed the defense and nondefense category limits for 2016 through 2021.

The BBEDCA, as amended, includes general requirements for OMB to adjust the caps for changes in concepts and definitions; appropriations designated by Congress and the President as emergency requirements; and appropriations designated by Congress and the President for Overseas Contingency Operations/Global War on Terrorism. The BBEDCA, as amended, also specifies adjustments, which are capped at certain amounts, for appropriations for continuing disability reviews and redeterminations by the Social Security Administration; the health care fraud and abuse control program at the Department of Health and Human Services; and appropriations designated by Congress as being for disaster relief.

The BBEDCA, as amended, requires OMB to provide cost estimates of each appropriations act in a report to Congress within 7 days after enactment of such act and to publish three sequestration reports—a “preview” report when the President submits the budget; an “update” report in August, and a “final” report within 15 days after the end of a session of Congress.

The preview report discusses the status of discretionary sequestration, based on current law. This report also explains the adjustments that are required by law to the discretionary caps and publishes the revised caps. The update and final reports revise the preview report estimates to reflect the effects of newly enacted discretionary laws. In addition, the update report must contain a preview estimate of the adjustment for disaster funding for the upcoming fiscal year.

If OMB’s final sequestration report for a given fiscal year indicates that the amount of discretionary budget authority provided in appropriations acts for that year exceeds the statutory limit on budget authority for that category in that year, the President must issue a sequestration order canceling budgetary resources in nonexempt accounts within that category by the amount necessary to eliminate the breach. If a continuing resolution is in effect when OMB issues its final sequester report, calculations will be based on the annualized amount provided by that continuing resolution. Under sequestration, each nonexempt account within a category is reduced by a dollar amount calculated by multiplying the enacted level of sequestrable budgetary resources in that account by the uniform percentage necessary to eliminate a breach within that category. The BBEDCA, as amended, specifies special rules for reducing some programs and exempts some programs from sequestration entirely. For example, the BBEDCA, as amended, limits the reduction for certain health and medical care accounts to 2 percent. During the 1990s, the threat of sequestration proved sufficient to ensure compliance with the discretionary spending limits. In that respect, discretionary sequestration can be viewed first as an incentive for compliance and second as a remedy for noncompliance. This is also true for mandatory sequestration under PAYGO, discussed below.

From the end of a session of Congress through the following June 30th, a within-session discretionary sequestration is imposed if appropriations for the current year cause a cap to be breached. If a breach occurs in the last quarter of a fiscal year (i.e., July 1 through September 30), instead of causing a sequestration, the breach would cause the applicable spending limit for the following fiscal year to be reduced by the amount of the breach. These requirements ensure that supplemental appropriations enacted during the fiscal year are subject to the budget enforcement provisions.

***Direct spending enforcement.*** The Statutory Pay-As-You-Go Act of 2010 requires that new legislation changing governmental receipts or mandatory spending or collections must be enacted on a “pay-as-you-go” (PAYGO) basis; that is, that the cumulative effects of such legislation not increase projected on-budget deficits. Unlike the budget enforcement mechanism for discretionary programs, PAYGO is a permanent requirement, and it does not impose a cap on spending or a floor on revenues. Instead, PAYGO requires that legislation reducing revenues must be fully offset by cuts in mandatory programs or by revenue increases, and that any bills increasing mandatory expenditures must be fully offset by revenue increases or cuts in mandatory programs. This requirement also is enforced by a sequestration process, separate from that described above in reference to the discretionary caps, which requires automatic across-the-board cuts in selected mandatory programs in the event that legislation taken as a whole does not meet the PAYGO standard established by the law. The PAYGO law establishes special scorecards and scorekeeping rules.

The budgetary effects of revenue and direct spending provisions, including both costs and savings, are recorded by OMB on two PAYGO scorecards in which costs or savings are averaged over rolling five-year and 10-year periods. The budgetary effects of PAYGO measures may be directed in legislation by reference to statements inserted into the *Congressional Record* by the chairmen of the House and Senate Budget Committees. These statements reflect the estimates of the Budget Committees, which are usually informed by cost estimates prepared by the Congressional Budget Office. If this procedure is not followed, then the budgetary effects of the legislation are determined by OMB.

Within 14 business days after a congressional session ends, OMB issues an annual PAYGO report and determines whether a violation of the PAYGO requirement has occurred. If either scorecard shows net costs in the budget year column, the President is required to issue a sequestration order implementing across-the-board cuts to non-exempt mandatory programs by an amount sufficient to offset the net costs on the PAYGO scorecard.

The Statutory Pay-As-You-Go Act of 2010 exempted the costs of certain legislation from the PAYGO scorecard, as long as that legislation was enacted by December 31, 2011. Extension of the middle-class provisions of the 2001 and 2003 tax cuts, as amended in 2009, did not have to be offset. In addition, extension through 2014 of relief from the scheduled deep reduction in Medicare physician reimbursement rates was also exempt from PAYGO, but only up to the reimbursement rates in effect in 2009. In four bills between June 2010 and December of 2011, the Congress enacted temporary relief to the Sustainable Growth Rate (SGR) provision of Medicare at payment rates 2.2 percent above those defined in the Statutory Pay-As-You-Go Act of 2010, so those incremental costs appeared on the PAYGO scorecards. Congress chose to offset the entire costs of the relief, even though such offsets were not required. Because the December 31, 2011 deadline for enacting legislation extending these policies has passed, current law provides for any further extensions to be subject to the PAYGO rules.

In addition, if Congress designates a provision of mandatory spending or receipts legislation as an emergency requirement, the effect of the provision is not scored as PAYGO.

The PAYGO rules also apply to the outlays resulting from outyear changes in mandatory programs made in appropriations acts and to all revenue changes made in appropriations acts. However, outyear changes to mandatory programs that have zero net outlay effects over the sum of the current year and the next five fiscal years are not considered PAYGO.

The PAYGO rules do not apply to increases in mandatory spending or decreases in receipts that result automatically under existing law. For example, mandatory spending for benefit programs, such as unemployment insurance, rises when the population of eligible beneficiaries rises, and many benefit payments are automatically increased for inflation under existing laws. Additional information on the Statutory Pay-As-You-Go Act of 2010 can be found on OMB's website at *www.whitehouse.gov/omb/paygo_description.*

The Senate imposes points of order against consideration of tax or mandatory spending legislation that would violate the PAYGO principle, although the time periods covered by the Senate's rule and the treatment of previously enacted costs or savings may differ in some respects from the requirements of the Statutory Pay-As-You-Go Act of 2010.

The House, in contrast, imposes points of order on legislation increasing mandatory spending in net, whether or not those costs are offset by revenue increases, but the House rule does not constrain the size of tax cuts or require them to be offset. On January 3, 2013, the House agreed to a special order that permits the Budget Committee Chairman to certify that the costs of certain types of legislation are zero when introducing pay-as-you-go estimates into the Congressional Record:

- Repeal of the Affordable Care Act.
- Extension of EGTRRA and JGTRRA.
- Extension of AMT relief and estate tax repeal.
- Creation of a 20 percent deduction in income to small businesses.
- Enactment of legislation implementing trade agreements.

***Joint Committee reductions.*** The failure of the Joint Select Committee on Deficit Reduction to propose, and the Congress to enact, legislation to reduce the deficit by at least $1.2 trillion triggered automatic reductions to budgetary resources in fiscal years 2013 through 2021. In fiscal year 2013, these reductions were first scheduled to occur on January 2, 2013; however, ATRA postponed the reductions until March 1, 2013. On that date, the President issued the order to reduce budgetary resources for fiscal year 2013 as specified in the BBEDCA.[2] The sequestration order for mandatory programs for 2014 was released with the 2014 President's Budget and became effective on October 1, 2013.[3]

OMB is required to calculate the amount of the deficit reduction required for each of fiscal years 2013 through 2021. The automatic spending reduction process entails the following steps:

- The statutory discretionary spending limits for 2013 through 2021 are revised by redefining the security and nonsecurity categories, as outlined in the discretionary cap enforcement section above.[4]
- The $1.2 trillion savings target is to be reduced by 18 percent to account for debt service. The remainder is spread in equal amounts across the nine years, 2013 through 2021. Then, for fiscal year 2013, that amount was reduced in ATRA by $24 billion.
- The total amount of spending reductions required for each year is divided equally between the defense and nondefense functions.
- The annual amounts of spending reductions required each year for each type of spending is to be divided proportionally between discretionary and direct spending programs, using the discretionary BA

[2] OMB's calculations of the percentage and dollar amount of the required reduction for each non-exempt budget account and an explanation of the calculations can be found in the OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013.

[3] OMB's calculations of the percentage and dollar amount of the required reduction for each non-exempt budget account with mandatory spending and an explanation of the calculations can be found in the OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2014 and OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014 (April 10, 2013).

[4] Although the 2013 caps reflect the original security and nonsecurity categories for discretionary enforcement, the 2013 sequestration was calculated using, and applied to, the defense and non-defense categories pursuant to the American Taxpayer Relief Act.

limit and the most recent baseline estimate of non-exempt mandatory outlays as the base.

- The reduction each year for mandatory programs is to be achieved by a sequestration of non-exempt mandatory spending. The sequestration order for fiscal year 2013 was released on March 1, 2013 and the sequestration order for 2014 was released with the 2014 President's Budget, as described above. The sequestration order for each of the fiscal years 2015 through 2021 is also required to be issued with the release of the President's Budget and goes into effect on the first day (October 1) of the fiscal year. The BBA extended the sequestration on mandatory spending to 2022 and 2023 at the rate required by the BCA for 2021.[5]
- The reduction for discretionary programs for 2013, achieved by a sequestration of non-exempt discretionary spending, became effective March 1, 2013, as described above. The reductions to the discretionary caps required for 2014 were made in the *OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2014*. The BBA included sufficient savings to replace $44.8 billion of the discretionary spending reductions required in fiscal year 2014, and set new caps for fiscal year 2015, as described in the discretionary cap enforcement section above, and specified that the discretionary spending limits would not be reduced in the sequestration preview report for fiscal year 2015. These new caps are approximately $18.5 billion more than CBO's estimate of the post-reduction discretionary spending limits in 2015. In both 2014 and 2015, the spending reduction replacement was split evenly between defense and non-defense programs. For fiscal years 2016 through 2021, the BCA continues to require the reduction of discretionary spending to be taken by reducing the discretionary cap year by year. This reduction will be included as an adjustment to the discretionary spending limits in the sequestration preview report issued with each President's Budget.

The BBA was an important first step toward replacing a portion of the Joint Committee reductions with sensible long-term reforms, including a number of reforms proposed in previous President's Budgets. The 2015 Budget builds upon that progress and includes a separate, fully paid-for Opportunity, Growth, and Security Initiative, split evenly between defense and non-defense, to make additional discretionary investments that promote growth and opportunity, and enhance national security. The President will work with the Congress to enact deficit reduction sufficient to replace and repeal the Joint Committee reductions required by the BCA in fiscal years 2015 through 2023.

[5] Public Law 113-82, commonly referred to as the Military Retired Pay Restoration Act and signed into law on February 15, 2014, extended the sequestration of mandatory spending into 2024. The estimates in the 2015 Budget do not reflect the effects of this Act due to the late date of enactment.

### Budget Execution

Government agencies may not spend or obligate more than the Congress has appropriated, and they may use funds only for purposes specified in law. The Antideficiency Act prohibits them from spending or obligating the Government to spend in advance of an appropriation, unless specific authority to do so has been provided in law. Additionally, the Act requires the President to apportion the budgetary resources available for most executive branch agencies. The President has delegated this authority to OMB. Some apportionments are by time periods (usually by quarter of the fiscal year), some are by projects or activities, and others are by a combination of both. Agencies may request OMB to reapportion funds during the year to accommodate changing circumstances. This system helps to ensure that funds do not run out before the end of the fiscal year.

During the budget execution phase, the Government sometimes finds that it needs more funding than the Congress has appropriated for the fiscal year because of unanticipated circumstances. For example, more might be needed to respond to a severe natural disaster. Under such circumstances, the Congress may enact a supplemental appropriation.

On the other hand, the President may propose to reduce a previously enacted appropriation. The President may propose to either "cancel" or "rescind" the amount. If the President initiates the withholding of funds while the Congress considers his request, the amounts are apportioned as "deferred" or "withheld pending rescission" on the OMB-approved apportionment form. Agencies are instructed not to withhold funds without the prior approval of OMB. When OMB approves a withholding, the Impoundment Control Act requires that the President transmit a "special message" to the Congress. The historical reason for the special message is to inform the Congress that the President has unilaterally withheld funds that were enacted in regular appropriations acts. The notification allows the Congress to consider the proposed rescission in a timely way. The last time the President initiated the withholding of funds was in fiscal year 2000.

## COVERAGE OF THE BUDGET

### Federal Government and Budget Totals

The budget documents provide information on all Federal agencies and programs. However, because the laws governing Social Security (the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance trust funds) and the Postal Service Fund require that the receipts and outlays for those activities be excluded from the budget totals and from the calculation of the deficit or surplus, the budget presents on-budget and off-budget totals. The off-budget totals include the Federal transactions excluded by law from the budget totals. The on-budget and off-budget amounts are added together to derive the totals for the Federal Government. These are sometimes referred to as the unified or consolidated budget totals.

It is not always obvious whether a transaction or activity should be included in the budget. Where there is a question, OMB normally follows the recommendation of the 1967 President's Commission on Budget Concepts to be comprehensive of the full range of Federal agencies, programs, and activities. In recent years, for example, the budget has included the transactions of the Affordable Housing Program funds, the Universal Service Fund, the Public Company Accounting Oversight Board, the Securities Investor Protection Corporation, Guaranty Agencies Reserves, the National Railroad Retirement Investment Trust, the United Mine Workers Combined Benefits Fund, the Federal Financial Institutions Examination Council, Electric Reliability Organizations (EROs) established pursuant to the Energy Policy Act of 2005, and the Corporation for Travel Promotion.

In contrast, the budget excludes tribal trust funds that are owned by Indian tribes and held and managed by the Government in a fiduciary capacity on the tribes' behalf. These funds are not owned by the Government, the Government is not the source of their capital, and the Government's control is limited to the exercise of fiduciary duties. Similarly, the transactions of Government-sponsored enterprises, such as the Federal Home Loan Banks, are not included in the on-budget or off-budget totals. Federal laws established these enterprises for public policy purposes, but they are privately owned and operated corporations. Nevertheless, because of their public charters, the budget discusses them and reports summary financial data in the budget *Appendix* and in some detailed tables.

**Table 9–1. TOTALS FOR THE BUDGET AND THE FEDERAL GOVERNMENT**
(In billions of dollars)

| | 2013 Actual | Estimate | |
|---|---|---|---|
| | | 2014 | 2015 |
| **Budget authority** | | | |
| Unified | 3,480 | 3,644 | 3,969 |
| On-budget | 2,841 | 2,925 | 3,207 |
| Off-budget | 639 | 719 | 762 |
| **Receipts:** | | | |
| Unified | 2,775 | 3,002 | 3,337 |
| On-budget | 2,102 | 2,269 | 2,580 |
| Off-budget | 673 | 732 | 758 |
| **Outlays:** | | | |
| Unified | 3,455 | 3,651 | 3,901 |
| On-budget | 2,821 | 2,939 | 3,143 |
| Off-budget | 634 | 711 | 758 |
| **Deficit (–) / Surplus (+):** | | | |
| Unified | –680 | –649 | –564 |
| On-budget | –719 | –670 | –564 |
| Off-budget | 39 | 21 | * |

* $500 million or less

The budget also excludes the revenues from copyright royalties and spending for subsequent payments to copyright holders where (1) the law allows copyright owners and users to voluntarily set the rate paid for the use of protected material, and (2) the amount paid by users of copyrighted material to copyright owners is related to the frequency or quantity of the material used. The budget excludes license royalties collected and paid out by the Copyright Office for the retransmission of network broadcasts via cable collected under 17 U.S.C. 111 because these revenues meet both of these conditions. The budget will continue to include the royalties collected and paid out for license fees for digital audio recording technology under 17 U.S.C. 1004, since the amount of license fees paid is unrelated to usage of the material.

The *Appendix* includes a presentation for the Board of Governors of the Federal Reserve System for information only. The amounts are not included in either the on-budget or off-budget totals because of the independent status of the System within the Government. However, the Federal Reserve System transfers its net earnings to the Treasury, and the budget records them as receipts.

Chapter 10 of this volume, "Coverage of the Budget," provides more information on this subject.

### Functional Classification

The functional classification is used to organize budget authority, outlays, and other budget data according to the major purpose served—such as agriculture, transportation, income security, and national defense. There are 20 major functions, 17 of which are concerned with broad areas of national need and are further divided into subfunctions. For example, the Agriculture function comprises the subfunctions Farm Income Stabilization and Agricultural Research and Services. The functional classification meets the Congressional Budget Act requirement for a presentation in the budget by national needs and agency missions and programs. The remaining three functions—Net Interest, Undistributed Offsetting Receipts, and Allowances—enable the functional classification system to cover the entire Federal budget.

The following criteria are used in establishing functional categories and assigning activities to them:

- A function encompasses activities with similar purposes, emphasizing what the Federal Government seeks to accomplish rather than the means of accomplishment, the objects purchased, the clientele or geographic area served (except in the cases of functions 450 for Community and Regional Development, 570 for Medicare, 650 for Social Security, and 700 for Veterans Benefits and Services), or the Federal agency conducting the activity (except in the case of subfunction 051 in the National Defense function, which is used only for defense activities under the Department of Defense—Military).

- A function must be of continuing national importance, and the amounts attributable to it must be significant.
- Each basic unit being classified (generally the appropriation or fund account) usually is classified according to its primary purpose and assigned to only one subfunction. However, some large accounts that serve more than one major purpose are subdivided into two or more functions or subfunctions.

In consultation with Congress, the functional classification is adjusted from time to time as warranted. Detailed functional tables, which provide information on Government activities by function and subfunction, are available online at *www.budget.gov/budget/Analytical_Perspectives* and on the *Budget CD-ROM*.

### Agencies, Accounts, Programs, Projects, and Activities

Various summary tables in the *Analytical Perspectives* volume of the Budget provide information on budget authority, outlays, and offsetting collections and receipts arrayed by Federal agency. A table that lists budget authority and outlays by budget account within each agency and the totals for each agency of budget authority, outlays, and receipts that offset the agency spending totals is available online at *www.budget.gov/budget/Analytical_Perspectives* and on the *Budget CD-ROM*. The *Appendix* provides budgetary, financial, and descriptive information about programs, projects, and activities by account within each agency.

### Types of Funds

Agency activities are financed through Federal funds and trust funds.

***Federal funds*** comprise several types of funds. Receipt accounts of the ***general fund***, which is the greater part of the budget, record receipts not earmarked by law for a specific purpose, such as income tax receipts. The general fund also includes the proceeds of general borrowing. General fund appropriations accounts record general fund expenditures. General fund appropriations draw from general fund receipts and borrowing collectively and, therefore, are not specifically linked to receipt accounts. ***Special funds*** consist of receipt accounts for Federal fund receipts that laws have designated for specific purposes and the associated appropriation accounts for the expenditure of those receipts.

***Public enterprise funds*** are revolving funds used for programs authorized by law to conduct a cycle of business-type operations, primarily with the public, in which outlays generate collections.

***Intragovernmental funds*** are revolving funds that conduct business-type operations primarily within and between Government agencies. The collections and the outlays of revolving funds are recorded in the same budget account.

***Trust funds*** account for the receipt and expenditure of monies by the Government for carrying out specific purposes and programs in accordance with the terms of a statute that designates the fund as a trust fund (such as the Highway Trust Fund) or for carrying out the stipulations of a trust where the Government itself is the beneficiary (such as any of several trust funds for gifts and donations for specific purposes). ***Trust revolving funds*** are trust funds credited with collections earmarked by law to carry out a cycle of business-type operations.

The Federal budget meaning of the term "trust," as applied to trust fund accounts, differs significantly from its private-sector usage. In the private sector, the beneficiary of a trust usually owns the trust's assets, which are managed by a trustee who must follow the stipulations of the trust. In contrast, the Federal Government owns the assets of most Federal trust funds, and it can raise or lower future trust fund collections and payments, or change the purposes for which the collections are used, by changing existing laws. There is no substantive difference between a trust fund and a special fund or between a trust revolving fund and a public enterprise revolving fund.

However, in some instances, the Government does act as a true trustee of assets that are owned or held for the benefit of others. For example, it maintains accounts on behalf of individual Federal employees in the Thrift Savings Fund, investing them as directed by the individual employee. The Government accounts for such funds in ***deposit funds***, which are not included in the budget. (Chapter 26 of this volume, "Trust Funds and Federal Funds," provides more information on this subject.)

### Budgeting for Full Costs

A budget is a financial plan for allocating resources—deciding how much the Federal Government should spend in total, program by program, and for the parts of each program and deciding how to finance the spending. The budgetary system provides a process for proposing policies, making decisions, implementing them, and reporting the results. The budget needs to measure costs accurately so that decision makers can compare the cost of a program with its benefits, the cost of one program with another, and the cost of one method of reaching a specified goal with another. These costs need to be fully included in the budget up front, when the spending decision is made, so that executive and congressional decision makers have the information and the incentive to take the total costs into account when setting priorities.

The budget includes all types of spending, including both current operating expenditures and capital investment, and to the extent possible, both are measured on the basis of full cost. Questions are often raised about the measure of capital investment. The present budget provides policymakers the necessary information regarding investment spending. It records investment on a cash basis, and it requires the Congress to provide budget authority before an agency can obligate the Government to make a cash outlay. However, the budget measures only costs, and the benefits with which these costs are compared, based on policy makers' judgment, must be presented in supplementary materials. By these means, the budget allows the total cost of capital investment to be compared up front in a rough way with the total expected future net benefits. Such a comparison of total costs with benefits is consistent with the formal method of cost-benefit analysis of capital projects in government, in which the full cost of a capital asset as the cash is paid out is compared with the full stream of future benefits (all in terms of present values). (Chapter 18 of this volume, "Federal Investment," provides more information on capital investment.)

## RECEIPTS, OFFSETTING COLLECTIONS, AND OFFSETTING RECEIPTS

### In General

The budget records amounts collected by Government agencies two different ways. Depending on the nature of the activity generating the collection and the law that established the collection, they are recorded as either:

- ***Governmental receipts***, which are compared in total to outlays (net of offsetting collections and offsetting receipts) in calculating the surplus or deficit; or
- ***Offsetting collections*** or ***offsetting receipts***, which are deducted from gross outlays to calculate net outlay figures.

### Governmental Receipts

Governmental receipts are collections that result from the Government's exercise of its sovereign power to tax or otherwise compel payment. Sometimes they are called receipts, budget receipts, Federal receipts, or Federal revenues. They consist mostly of individual and corporation income taxes and social insurance taxes, but also include excise taxes, compulsory user charges, regulatory fees, customs duties, court fines, certain license fees, and deposits of earnings by the Federal Reserve System. Total receipts for the Federal Government include both on-budget and off-budget receipts (see Table 11–1, "Totals for the Budget and the Federal Government," which appears earlier in this chapter.) Chapter 12 of this volume, "Governmental Receipts," provides more information on governmental receipts.

### Offsetting Collections and Offsetting Receipts

Offsetting collections and offsetting receipts are recorded as offsets to (deductions from) spending, not as additions on the receipt side of the budget. These amounts are recorded as offsets to outlays so that the budget totals represent governmental rather than market activity and reflect the Government's net transactions with the public. They are recorded in one of two ways, based on interpretation of laws and longstanding budget concepts and practice. They are offsetting collections when the collections are authorized by law to be credited to expenditure accounts and are generally available for expenditure without further legislation. Otherwise, they are deposited in receipt accounts and called offsetting receipts.

Offsetting collections and offsetting receipts result from any of the following types of transactions:

- ***Business-like transactions or market-oriented activities with the public***—these include voluntary collections from the public in exchange for goods or services, such as the proceeds from the sale of postage stamps, the fees charged for admittance to recreation areas, and the proceeds from the sale of Government-owned land; and reimbursements for damages, such as recoveries by the Hazardous Substance Superfund. The budget records these amounts as *offsetting collections from non-Federal sources* (for offsetting collections) or as *proprietary receipts* (for offsetting receipts).
- ***Intragovernmental transactions***—collections from other Federal Government accounts. The budget records collections by one Government account from another as *offsetting collections from Federal sources* (for offsetting collections) or as *intragovernmental receipts* (for offsetting receipts). For example, the General Services Administration rents office space to other Government agencies and records their rental payments as offsetting collections from Federal sources in the Federal Buildings Fund. These transactions are exactly offsetting and do not affect the surplus or deficit. However, they are an important accounting mechanism for allocating costs to the programs and activities that cause the Government to incur the costs.
- ***Voluntary gifts and donations***—gifts and donations of money to the Government, which are treated as offsets to budget authority and outlays.
- ***Offsetting governmental transactions***—collections from the public that are governmental in nature and should conceptually be treated like Federal revenues and compared in total to outlays (e.g., tax receipts, regulatory fees, compulsory user charges, custom duties, license fees) but required by law or longstanding practice to be misclassified as offsetting. The budget records amounts from non-Federal sources that are governmental in nature as *offsetting governmental collections* (for offsetting collections) or as *offsetting governmental receipts* (for offsetting receipts).

### Offsetting Collections

Some laws authorize agencies to credit collections directly to the account from which they will be spent and, usually, to spend the collections for the purpose of the account without further action by the Congress. Most revolving funds operate with such authority. For example, a permanent law authorizes the Postal Service to use collections from the sale of stamps to finance its operations without a requirement for annual appropriations. The budget records these collections in the Postal Service Fund (a revolving fund) and records budget authority in an amount equal to the collections. In addition to revolving funds, some agencies are authorized to charge fees to defray a portion of costs for a program that are otherwise financed by appropriations from the general fund and usually to spend the collections without further action by the Congress. In such cases, the budget records the offsetting collections and resulting budget authority in the program's general fund expenditure account. Similarly, intragovernmental collections authorized by some laws may be recorded as offsetting collections and budget authority in revolving funds or in general fund expenditure accounts.

Sometimes appropriations acts or provisions in other laws limit the obligations that can be financed by offsetting collections. In those cases, the budget records budget authority in the amount available to incur obligations, not in the amount of the collections.

Offsetting collections credited to expenditure accounts automatically offset the outlays at the expenditure account level. Where accounts have offsetting collections, the budget shows the budget authority and outlays of the account both gross (before deducting offsetting collections) and net (after deducting offsetting collections). Totals for the agency, subfunction, and overall budget are net of offsetting collections.

### Offsetting Receipts

Collections that are offset against gross outlays but are not authorized to be credited to expenditure accounts are credited to receipt accounts and are called offsetting receipts. Offsetting receipts are deducted from budget authority and outlays in arriving at total net budget authority and outlays. However, unlike offsetting collections credited to expenditure accounts, offsetting receipts do not offset budget authority and outlays at the account level. In most cases, they offset budget authority and outlays at the agency and subfunction levels.

Proprietary receipts from a few sources, however, are not offset against any specific agency or function and are classified as undistributed offsetting receipts. They are deducted from the Government-wide totals for net budget authority and outlays. For example, the collections of rents and royalties from outer continental shelf lands are undistributed because the amounts are large and for the most part are not related to the spending of the agency that administers the transactions and the subfunction that records the administrative expenses.

Similarly, two kinds of intragovernmental transactions—agencies' payments as employers into Federal employee retirement trust funds and interest received by trust funds—are classified as undistributed offsetting receipts. They appear instead as special deductions in computing total net budget authority and outlays for the Government rather than as offsets at the agency level. This special treatment is necessary because the amounts are so large they would distort measures of the agency's activities if they were attributed to the agency.

### User Charges

User charges are fees assessed on individuals or organizations for the provision of Government services and for the sale or use of Government goods or resources. The payers of the user charge must be limited in the authorizing legislation to those receiving special benefits from, or subject to regulation by, the program or activity beyond the benefits received by the general public or broad segments of the public (such as those who pay income taxes or customs duties). Policy regarding user charges is established in OMB Circular A–25, "User Charges." The term encompasses proceeds from the sale or use of Government goods and services, including the sale of natural resources (such as timber, oil, and minerals) and proceeds from asset sales (such as property, plant, and equipment). User charges are not necessarily dedicated to the activity they finance and may be credited to the general fund of the Treasury.

The term "user charge" does not refer to a separate budget category for collections. User charges are classified in the budget as receipts, offsetting receipts, or offsetting collections according to the principles explained previously.

See Chapter 13, "Offsetting Collections and Offsetting Receipts," for more information on the classification of user charges.

## BUDGET AUTHORITY, OBLIGATIONS, AND OUTLAYS

Budget authority, obligations, and outlays are the primary benchmarks and measures of the budget control system. The Congress enacts laws that provide agencies with spending authority in the form of budget authority. Before agencies can use these resources—obligate this budget authority—OMB must approve their spending plans. After the plans are approved, agencies can enter into binding agreements to purchase items or services or to make grants or other payments. These agreements are recorded as obligations of the United States and deducted from the amount of budgetary resources available to the agency. When payments are made, the obligations are liquidated and outlays recorded. These concepts are discussed more fully below.

### Budget Authority and Other Budgetary Resources

Budget authority is the authority provided in law to enter into legal obligations that will result in immediate or future outlays of the Government. In other words, it is the amount of money that agencies are allowed to commit to be spent in current or future years. Government officials may obligate the Government to make outlays only to the extent they have been granted budget authority.

The budget records new budget authority as a dollar amount in the year when it first becomes available for obligation. When permitted by law, unobligated balances of budget authority may be carried over and used in the next year. The budget does not record these balances as budget authority again. They do, however, constitute a budgetary resource that is available for obligation. In some cases, a provision of law (such as a limitation on obligations or a benefit formula) precludes the obligation of funds that would otherwise be available for obligation. In such cases, the budget records budget authority equal to the amount of obligations that can be incurred. A major exception to this rule is for the highway and mass transit programs financed by the Highway Trust Fund, where budget authority is measured as the amount of contract authority (described later in this chapter) provided in authorizing statutes, even though the obligation limitations enacted in annual appropriations acts restrict the amount of contract authority that can be obligated.

In deciding the amount of budget authority to request for a program, project, or activity, agency officials estimate the total amount of obligations they will need to incur to achieve desired goals and subtract the unobligated balances available for these purposes. The amount of budget authority requested is influenced by the nature of the programs, projects, or activities being financed. For current operating expenditures, the amount requested usually covers the needs for the fiscal year. For major procurement programs and construction projects, agencies generally must request sufficient budget authority in the first year to fully fund an economically useful segment of a procurement or project, even though it may be obligated over several years. This full funding policy is intended to ensure that the decision-makers take into account all costs and benefits fully at the time decisions are made to provide resources. It also avoids sinking money into a procurement or project without being certain if or when future funding will be available to complete the procurement or project.

Budget authority takes several forms:

- ***Appropriations***, provided in annual appropriations acts or authorizing laws, permit agencies to incur obligations and make payment;
- ***Borrowing authority***, usually provided in permanent laws, permits agencies to incur obligations but requires them to borrow funds, usually from the general fund of the Treasury, to make payment;
- ***Contract authority***, usually provided in permanent law, permits agencies to incur obligations in advance of a separate appropriation of the cash for payment or in anticipation of the collection of receipts that can be used for payment; and
- ***Spending authority from offsetting collections***, usually provided in permanent law, permits agencies to credit offsetting collections to an expenditure account, incur obligations, and make payment using the offsetting collections.

Because offsetting collections and offsetting receipts are deducted from gross budget authority, they are referred to as negative budget authority for some purposes, such as Congressional Budget Act provisions that pertain to budget authority.

Authorizing statutes usually determine the form of budget authority for a program. The authorizing statute may authorize a particular type of budget authority to be provided in annual appropriations acts, or it may provide one of the forms of budget authority directly, without the need for further appropriations.

An appropriation may make funds available from the general fund, special funds, or trust funds, or authorize the spending of offsetting collections credited to expenditure accounts, including revolving funds. Borrowing authority is usually authorized for business-like activities where the activity being financed is expected to produce income over time with which to repay the borrowing with interest. The use of contract authority is traditionally limited to transportation programs.

New budget authority for most Federal programs is normally provided in annual appropriations acts. However, new budget authority is also made available through permanent appropriations under existing laws and does not require current action by the Congress. Much of the permanent budget authority is for trust funds, interest on the public debt, and the authority to spend offsetting collections credited to appropriation or fund accounts. For most trust funds, the budget authority is appropriated automatically under existing law from the available balance of the fund and equals the estimated annual obligations of the funds. For interest on the public debt, budget authority is provided automatically under a permanent appropriation enacted in 1847 and equals interest outlays.

Annual appropriations acts generally make budget authority available for obligation only during the fiscal year to which the act applies. However, they frequently allow budget authority for a particular purpose to remain available for obligation for a longer period or indefinitely (that is, until expended or until the program objectives have been attained). Typically, budget authority for current operations is made available for only one year, and budget authority for construction and some research projects is available for a specified number of years or indefinitely. Most budget authority provided in authorizing statutes, such as for most trust funds, is available indefinitely. If budget authority is initially provided for a limited period of availability, an extension of availability would require enactment of another law (see "Reappropriation" later in this chapter).

Budget authority that is available for more than one year and not obligated in the year it becomes available is carried forward for obligation in a following year. In some cases, an account may carry forward unobligated budget authority from more than one prior year. The sum of such amounts constitutes the account's ***unobligated*** *balance*. Most of these balances had been provided for specific uses such as the multi-year construction of a major project and so are not available for new programs. A small part may never be obligated or spent, primarily amounts provided for contingencies that do not occur or reserves that never have to be used.

Amounts of budget authority that have been obligated but not yet paid constitute the account's ***unpaid obligations***. For example, in the case of salaries and wages, one to three weeks elapse between the time of obligation and the time of payment. In the case of major procurement and construction, payments may occur over a period of several years after the obligation is made. Unpaid obligations (which are made up of accounts payable and undelivered orders) net of the accounts receivable and unfilled customers' orders are defined by law as the ***obligated balances***. Obligated balances of budget authority at the end of the year are carried forward until the obligations are paid or the balances are canceled. (A general law provides that the obligated balances of budget authority that was made available for a definite period is automatically cancelled five years after the end of the period.) Due to such flows, a change in the amount of budget authority available in any one year may change the level of obligations and outlays for several years to come. Conversely, a change in the amount of obligations incurred from one year to the next does not necessarily result from an equal change in the amount of budget authority available for that year and will not necessarily result in an equal change in the level of outlays in that year.

The Congress usually makes budget authority available on the first day of the fiscal year for which the appropriations act is passed. Occasionally, the appropriations language specifies a different timing. The language may provide an ***advance appropriation***—budget authority that does not become available until one year or more beyond the fiscal year for which the appropriations act is passed. ***Forward funding*** is budget authority that is made available for obligation beginning in the last quarter of the fiscal year (beginning on July 1) for the financing of ongoing grant programs during the next fiscal year. This kind of funding is used mostly for education programs, so that obligations for education grants can be made prior to the beginning of the next school year. For certain benefit programs funded by annual appropriations, the appropriation provides for ***advance funding—***budget authority that is to be charged to the appropriation in the succeeding year, but which authorizes obligations to be incurred in the last quarter of the current fiscal year if necessary to meet benefit payments in excess of the specific amount appropriated for the year. When such authority is used, an adjustment is made to increase the budget authority for the fiscal year in which it is used and to reduce the budget authority of the succeeding fiscal year.

Provisions of law that extend into a new fiscal year the availability of unobligated amounts that have expired or would otherwise expire are called reappropriations. Reappropriations of expired balances that are newly available for obligation in the current or budget year count as new budget authority in the fiscal year in which the balances become newly available. For example, if a 2014 appropriations act extends the availability of unobligated budget authority that expired at the end of 2013, new budget authority would be recorded for 2014. This scorekeeping is used because a reappropriation has exactly the same effect as allowing the earlier appropriation to expire at the end of 2013 and enacting a new appropriation for 2014.

For purposes of the BBEDCA and the Statutory Pay-As-You-Go Act of 2010 (discussed earlier under "Budget Enforcement"), the budget classifies budget authority as ***discretionary*** or ***mandatory***. This classification indicates whether an appropriations act or authorizing legislation controls the amount of budget authority that is available. Generally, budget authority is discretionary if provided in an annual appropriations act and mandatory if provided in authorizing legislation. However, the budget authority provided in annual appropriations acts for certain specifically identified programs is also classified as mandatory by OMB and the congressional scorekeepers. This is because the authorizing legislation for these programs entitles beneficiaries—persons, households, or other levels of government—to receive payment, or otherwise legally obligates the Government to make payment and thereby effectively determines the amount of budget authority required, even though the payments are funded by a subsequent appropriation.

Sometimes, budget authority is characterized as current or permanent. Current authority requires the Congress to act on the request for new budget authority for the year involved. Permanent authority becomes available pursuant to standing provisions of law without appropriations action by the Congress for the year involved. Generally, budget authority is current if an annual appropriations act provides it and permanent if authorizing legislation provides it. By and large, the current/permanent distinction has been replaced by the discretionary/mandatory distinction, which is similar but not identical. Outlays are also classified as discretionary or mandatory according to the classification of the budget authority from which they flow (see "Outlays" later in this chapter).

The amount of budget authority recorded in the budget depends on whether the law provides a specific amount or employs a variable factor that determines the amount. It is considered ***definite*** if the law specifies a dollar amount (which may be stated as an upper limit, for example, "shall not exceed …"). It is considered ***indefinite*** if, instead of specifying an amount, the law permits the amount to be determined by subsequent circumstances. For example, indefinite budget authority is provided for interest on the public debt, payment of claims and judgments awarded by the courts against the United States, and many entitlement programs. Many of the laws that authorize collections to be credited to revolving, special, and trust funds make all of the collections available for expenditure for the authorized purposes of the fund, and such authority is considered to be indefinite budget authority because the amount of collections is not known in advance of their collection.

### Obligations

Following the enactment of budget authority and the completion of required apportionment action, Government agencies incur obligations to make payments (see earlier discussion under “Budget Execution”). Agencies must record obligations when they enter into binding agreements that will result in immediate or future outlays. Such obligations include the current liabilities for salaries, wages, and interest; and contracts for the purchase of supplies and equipment, construction, and the acquisition of office space, buildings, and land. For Federal credit programs, obligations are recorded in an amount equal to the estimated subsidy cost of direct loans and loan guarantees (see “Federal Credit” later in this chapter).

### Outlays

Outlays are the measure of Government spending. They are payments that liquidate obligations (other than most exchanges of financial instruments, of which the repayment of debt is the prime example). The budget records outlays when obligations are paid, in the amount that is paid.

Agency, function and subfunction, and Government-wide outlay totals are stated net of offsetting collections and offsetting receipts for most budget presentations. (Offsetting receipts from a few sources do not offset any specific function, subfunction, or agency, as explained previously, but only offset Government-wide totals.) Outlay totals for accounts with offsetting collections are stated both gross and net of the offsetting collections credited to the account. However, the outlay totals for special and trust funds with offsetting receipts are not stated net of the offsetting receipts; like other offsetting receipts, these offset the agency, function, and subfunction totals but do not offset account-level outlays.

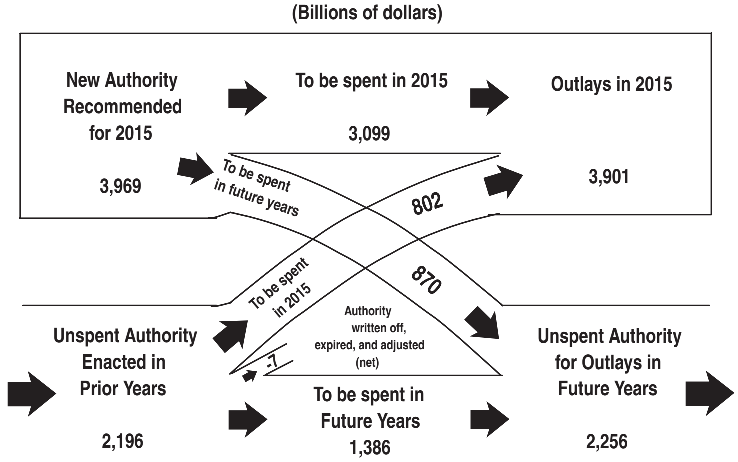
The Government usually makes outlays in the form of cash (currency, checks, or electronic fund transfers). However, in some cases agencies pay obligations without disbursing cash, and the budget nevertheless records outlays for the equivalent method. For example, the budget records outlays for the full amount of Federal employees’ salaries, even though the cash disbursed to employees is net of Federal and State income taxes withheld, retirement contributions, life and health insurance premiums, and other deductions. (The budget also records receipts for the amounts withheld from Federal employee paychecks for Federal income taxes and other payments to the Government.) When debt instruments (bonds, debentures, notes, or monetary credits) are used in place of cash to pay obligations, the budget records outlays financed by an increase in agency debt. For example, the budget records the acquisition of physical assets through certain types of lease-purchase arrangements as though a cash disbursement were made for an outright purchase. The transaction creates a Government debt, and the cash lease payments are treated as repayments of principal and interest.

The budget records outlays for the interest on the public issues of Treasury debt securities as the interest accrues, not when the cash is paid. A small portion of Treasury debt consists of inflation-indexed securities, which feature monthly adjustments to principal for inflation and semiannual payments of interest on the inflation-adjusted principal. As with fixed-rate securities, the budget records interest outlays as the interest accrues. The monthly adjustment to principal is recorded, simultaneously, as an increase in debt outstanding and an outlay of interest.

Most Treasury debt securities held by trust funds and other Government accounts are in the Government ac-

**Chart 9-1. Relationship of Budget Authority to Outlays for 2015**

(Billions of dollars)



count series. The budget normally states the interest on these securities on a cash basis. When a Government account is invested in Federal debt securities, the purchase price is usually close or identical to the par (face) value of the security. The budget generally records the investment at par value and adjusts the interest paid by Treasury and collected by the account by the difference between purchase price and par, if any.

For Federal credit programs, outlays are equal to the subsidy cost of direct loans and loan guarantees and are recorded as the underlying loans are disbursed (see "Federal Credit" later in this chapter).

The budget records refunds of receipts that result from overpayments by the public (such as income taxes withheld in excess of tax liabilities) as reductions of receipts, rather than as outlays. However, the budget records payments to taxpayers for refundable tax credits (such as earned income tax credits) that exceed the taxpayer's tax liability as outlays. Similarly, when the Government makes overpayments that are later returned to the Government, those refunds to the Government are recorded as offsetting collections or offsetting receipts, not as governmental receipts.

Not all of the new budget authority for 2015 will be obligated or spent in 2015. Outlays during a fiscal year may liquidate obligations incurred in the same year or in prior years. Obligations, in turn, may be incurred against budget authority provided in the same year or against unobligated balances of budget authority provided in prior years. Outlays, therefore, flow in part from budget authority provided for the year in which the money is spent and in part from budget authority provided for prior years. The ratio of a given year's outlays resulting from budget authority enacted in that or a prior year to the original amount of that budget authority is referred to as the spendout rate for that year.

As shown in the accompanying chart, $3,099 billion of outlays in 2015 (79 percent of the outlay total) will be made from that year's $3,969 billion total of proposed new budget authority (a first-year spendout rate of 78 percent). Thus, the remaining $802 billion of outlays in 2015 (21 percent of the outlay total) will be made from budget authority enacted in previous years. At the same time, $870 billion of the new budget authority proposed for 2015 (22 percent of the total amount proposed) will not lead to outlays until future years.

As described earlier, the budget classifies budget authority and outlays as discretionary or mandatory. This classification of outlays measures the extent to which actual spending is controlled through the annual appropriations process. About 33 percent of total outlays in 2013 ($1,147 billion) are discretionary and the remaining 67 percent ($2,307 billion in 2013) are mandatory spending and net interest. Such a large portion of total spending is mandatory because authorizing rather than appropriations legislation determines net interest ($221 billion in 2013) and the spending for a few programs with large amounts of spending each year, such as Social Security ($808 billion in 2013) and Medicare ($492 billion in 2013).

The bulk of mandatory outlays flow from budget authority recorded in the same fiscal year. This is not necessarily the case for discretionary budget authority and outlays. For most major construction and procurement projects and long-term contracts, for example, the budget authority covers the entire cost estimated when the projects are initiated even though the work will take place and outlays will be made over a period extending beyond the year for which the budget authority is enacted. Similarly, discretionary budget authority for most education and job training activities is appropriated for school or program years that begin in the fourth quarter of the fiscal year. Most of these funds result in outlays in the year after the appropriation.

## FEDERAL CREDIT

Some Government programs provide assistance through direct loans or loan guarantees. A ***direct loan*** is a disbursement of funds by the Government to a non-Federal borrower under a contract that requires repayment of such funds with or without interest and includes economically equivalent transactions, such as the sale of Federal assets on credit terms. A ***loan guarantee*** is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. The Federal Credit Reform Act of 1990, as amended (FCRA), prescribes the budgetary treatment for Federal credit programs. Under this treatment, the budget records obligations and outlays up front, for the net cost to the Government (subsidy cost), rather than recording the cash flows year by year over the term of the loan. FCRA treatment allows the comparison of direct loans and loan guarantees to each other, and to other methods of delivering assistance, such as grants.

The cost of direct loans and loan guarantees, sometimes called the "subsidy cost," is estimated as the present value of expected payments to and from the public over the term of the loan, discounted using appropriate Treasury interest rates.[6] (Some advocate for fair value treatment of loans and guarantees, which would discount cash flows using market rates. See Chapter 20 of this volume, "Credit and Insurance," for a fuller discussion of this topic.) Similar to most other kinds of programs, agencies can make loans or guarantee loans only if the Congress has appropriated funds sufficient to cover the subsidy costs, or provided a limitation in an appropriations act on the amount of direct loans or loan guarantees that can be made.

The budget records the subsidy cost to the Government arising from direct loans and loan guarantees—the budget authority and outlays—in ***credit program accounts***.

[6] Present value is a standard financial concept that considers the time-value of money. That is, it accounts for the fact that a given sum of money is worth more today than the same sum would be worth in the future because interest can be earned.

When a Federal agency disburses a direct loan or when a non-Federal lender disburses a loan guaranteed by a Federal agency, the program account disburses or outlays an amount equal to the estimated present value cost, or subsidy, to a non-budgetary credit ***financing account***. The financing accounts record the actual transactions with the public. For a few programs, the estimated subsidy cost is negative because the present value of expected Government collections exceeds the present value of expected payments to the public over the term of the loan. In such cases, the financing account pays the estimated subsidy cost to the program's negative subsidy receipt account, where it is recorded as an offsetting receipt. In a few cases, the offsetting receipts of credit accounts are dedicated to a special fund established for the program and are available for appropriation for the program.

The agencies responsible for credit programs must reestimate the subsidy cost of the outstanding portfolio of direct loans and loan guarantees each year. If the estimated cost increases, the program account makes an additional payment to the financing account equal to the change in cost. If the estimated cost decreases, the financing account pays the difference to the program's downward reestimate receipt account, where it is recorded as an offsetting receipt. The FCRA provides permanent indefinite appropriations to pay for upward reestimates.

If the Government modifies the terms of an outstanding direct loan or loan guarantee in a way that increases the cost as the result of a law or the exercise of administrative discretion under existing law, the program account records obligations for the increased cost and outlays the amount to the financing account. As with the original subsidy cost, agencies may incur modification costs only if the Congress has appropriated funds to cover them. A modification may also reduce costs, in which case the amounts are generally returned to the general fund, as the financing account makes a payment to the program's negative subsidy receipt account.

Credit financing accounts record all cash flows arising from direct loan obligations and loan guarantee commitments. Such cashflows include all cashflows to and from the public, including direct loan disbursements and repayments, loan guarantee default payments, fees, and recoveries on defaults. Financing accounts also record intragovernmental transactions, such as the receipt of subsidy cost payments from program accounts, borrowing and repayments of Treasury debt to finance program activities, and interest paid to or received from the Treasury. The cash flows of direct loans and of loan guarantees are recorded in separate financing accounts for programs that provide both types of credit. The budget totals exclude the transactions of the financing accounts because they are not a cost to the Government. However, since financing accounts record all credit cash flows to and from the public, they affect the means of financing a budget surplus or deficit (see "Credit Financing Accounts" in the next section). The budget documents display the transactions of the financing accounts, together with the related program accounts, for information and analytical purposes.

The FCRA grandfathered the budgetary treatment of direct loan obligations and loan guarantee commitments made prior to 1992. The budget records these on a cash basis in ***credit liquidating accounts***, the same as they were recorded before FCRA was enacted. However, this exception ceases to apply if the direct loans or loan guarantees are modified as described above. In that case, the budget records the subsidy cost or savings of the modification, as appropriate, and begins to account for the associated transactions under FCRA treatment for direct loan obligations and loan guarantee commitments made in 1992 or later.

Under the authority provided in various acts, certain activities that do not meet the definition in FCRA of a direct loan or loan guarantee are reflected pursuant to FCRA. For example, the Emergency Economic Stabilization Act of 2008 (EESA) created the Troubled Asset Relief Program (TARP) under the Department of the Treasury, and authorized Treasury to purchase or guarantee troubled assets until October 3, 2010. Under the TARP, Treasury has purchased equity interests in financial institutions. Section 123 of the EESA provides the Administration the authority to treat these equity investments on a FCRA basis, recording outlays for the subsidy as is done for direct loans and loan guarantees. The budget reflects the cost to the Government of TARP direct loans, loan guarantees, and equity investments consistent with the FCRA and Section 123 of EESA, which requires an adjustment to the FCRA discount rate for market risks. Treasury equity purchases under the Small Business Lending Fund are treated pursuant to the FCRA, as provided by the Small Business Jobs Act of 2010. In addition, the 2009 increases to the International Monetary Fund (IMF) quota and New Arrangements to Borrow (NAB) enacted in the Supplemental Appropriations Act of 2009 are treated on a FCRA basis, with a risk adjustment to the discount rate, as directed in that Act. However, the Administration proposes to restate these IMF increases on a present value basis. Under this proposal, the budget would still reflect a present value cost to Government for the increase proposed in 2015, but for the 2009 increase and the proposed 2015 increase, transactions would no longer be treated on a FCRA basis. For more information, see the discussion on United States Subscriptions to the IMF in the next section.

## BUDGET DEFICIT OR SURPLUS AND MEANS OF FINANCING

When outlays exceed receipts, the difference is a deficit, which the Government finances primarily by borrowing. When receipts exceed outlays, the difference is a surplus, and the Government automatically uses the surplus primarily to reduce debt. The Federal debt held by the public is approximately the cumulative amount of borrowing to finance deficits, less repayments from surpluses, over the Nation's history.

Borrowing is not exactly equal to the deficit, and debt repayment is not exactly equal to the surplus, because of the other transactions affecting borrowing from the public, or other means of financing, such as those discussed in this section. The factors included in the other means of financing can either increase or decrease the Government's borrowing needs (or decrease or increase its ability to repay debt). For example, the change in the Treasury operating cash balance is a factor included in other means of financing. Holding receipts and outlays constant, increases in the cash balance increase the Government's need to borrow or reduce the Government's ability to repay debt, and decreases in the cash balance decrease the need to borrow or increase the ability to repay debt. In some years, the net effect of the other means of financing is minor relative to the borrowing or debt repayment; in other years, the net effect may be significant.

### Borrowing and Debt Repayment

The budget treats borrowing and debt repayment as a means of financing, not as receipts and outlays. If borrowing were defined as receipts and debt repayment as outlays, the budget would always be virtually balanced by definition. This rule applies both to borrowing in the form of Treasury securities and to specialized borrowing in the form of agency securities. The rule reflects the commonsense understanding that lending or borrowing is just an exchange of financial assets of equal value—cash for Treasury securities—and so is fundamentally different from, say, paying taxes.

In 2013, the Government borrowed $701 billion from the public, bringing debt held by the public to $11,983 billion. This borrowing financed the $680 billion deficit in that year as well as the net cash requirements of the other means of financing, such as changes in cash balances and other accounts discussed below.

In addition to selling debt to the public, the Treasury Department issues debt to Government accounts, primarily trust funds that are required by law to invest in Treasury securities. Issuing and redeeming this debt does not affect the means of financing, because these transactions occur between one Government account and another and thus do not raise or use any cash for the Government as a whole.

(See Chapter 4 of this volume, "Federal Borrowing and Debt," for a fuller discussion of this topic.)

### Exercise of Monetary Power

Seigniorage is the profit from coining money. It is the difference between the value of coins as money and their cost of production. Seigniorage reduces the Government's need to borrow. Unlike the payment of taxes or other receipts, it does not involve a transfer of financial assets from the public. Instead, it arises from the exercise of the Government's power to create money and the public's desire to hold financial assets in the form of coins. Therefore, the budget excludes seigniorage from receipts and treats it as a means of financing other than borrowing from the public. The budget also treats proceeds from the sale of gold as a means of financing, since the value of gold is determined by its value as a monetary asset rather than as a commodity.

### Credit Financing Accounts

The budget records the net cash flows of credit programs in credit financing accounts. These accounts include the transactions for direct loan and loan guarantee programs, as well as the equity purchase programs under TARP that are recorded on a credit basis consistent with Section 123 of EESA. Financing accounts also record the 2009 increase in the U.S. quota in the International Monetary Fund that are recorded on a credit basis consistent with the Supplemental Appropriations Act of 2009, and equity purchases under the Small Business Lending Fund consistent with the Small Business Jobs Act of 2010. Credit financing accounts are excluded from the budget because they are not allocations of resources by the Government (see "Federal Credit" earlier in this chapter). However, even though they do not affect the surplus or deficit, they can either increase or decrease the Government's need to borrow. Therefore, they are recorded as a means of financing.

Financing account disbursements to the public increase the requirement for Treasury borrowing in the same way as an increase in budget outlays. Financing account receipts from the public can be used to finance the payment of the Government's obligations and therefore reduce the requirement for Treasury borrowing from the public in the same way as an increase in budget receipts.

### Deposit Fund Account Balances

The Treasury uses non-budgetary accounts, called deposit funds, to record cash held temporarily until ownership is determined (for example, earnest money paid by bidders for mineral leases) or cash held by the Government as agent for others (for example, State and local income taxes withheld from Federal employees' salaries and not yet paid to the State or local government or amounts held in the Thrift Savings Fund, a defined contribution pension fund held and managed in a fiduciary capacity by the Government). Deposit fund balances may be held in the form of either invested or uninvested balances. To the extent that they are not invested, changes in the balances are available to finance expenditures and are recorded as a means of financing other than borrowing from the public. To the extent that they are invested in Federal debt, changes in the balances are reflected as borrowing from the public (in lieu of borrowing from other parts of the public) and are not reflected as a separate means of financing.

### United States Quota Subscriptions to the International Monetary Fund (IMF)

The United States participates in the IMF through a quota subscription. Financial transactions with the IMF are exchanges of monetary assets. When the IMF draws dollars from the U.S. quota, the United States simultaneously receives an equal, offsetting, interest-bearing, Special Drawing Right (SDR)-denominated claim in the form of an increase in the U.S. reserve position in the IMF. The U.S. reserve position in the IMF increases when the United States transfers dollars to the IMF and decreases when the United States is repaid and the cash flows return to the Treasury.

The budgetary treatment of appropriations for IMF quotas has changed over time. Prior to 1981, the transactions were not included in the budget because they were viewed as exchanges of cash for monetary assets (SDRs) of the same value. This was consistent with the scoring of other exchanges of monetary assets, such as deposits of cash in Treasury accounts at commercial banks. As a result of an agreement reached with the Congress in 1980 to allow appropriators to have jurisdiction over changes to the IMF quota, the budget began to record budget authority for the quotas, but did not record outlays because of the continuing view that the transactions were exchanges of monetary assets of equal value. This scoring convention continued to be applied through 2008. The 2010 Budget proposed to change the scoring back to the pre-1981 practice of showing zero budget authority and outlays for proposed increases in the U.S. quota subscriptions to the IMF.

In 2009, Congress enacted an increase in the Supplemental Appropriations Act of 2009 (Public Law 111–32, Title XIV, International Monetary Programs) and directed that the increases in this Act be scored under the requirements of the Federal Credit Reform Act of 1990, with an adjustment to the discount rate for market risk. Accordingly, for the quota and the NAB increases provided by the Supplemental Appropriations Act of 2009, the baseline reflects obligations and outlays for the estimated present value cost to Government as if these transactions were direct loans under credit reform, plus an additional risk premium. Like credit programs, under this treatment, the nominal cash flows between the U.S. Treasury and the IMF are treated as a means of financing (see "Credit Financing Accounts" earlier in this chapter), and do not affect the deficit.

In contrast, for increases to the U.S. quota subscriptions made prior to the Supplemental Appropriations Act of 2009, the 2015 Budget records interest received from the IMF on U.S. deposits as an offsetting receipt in the general fund of the Treasury. Treasury records outlays in the prior year for financial transactions with the IMF to the extent there is an unrealized loss in dollar terms and offsetting receipts to the extent there is an unrealized gain in dollar terms on the SDR-denominated interest-bearing portion of the U.S. reserve position—the amount of the quota actually being used by the IMF for its lending programs. Changes in the value of the portion of the U.S. quota held at Treasury in a letter of credit are recorded as a change in obligations.

The 2015 Budget includes the Administration's proposal to implement IMF reforms agreed to by the IMF membership in 2010, which would reduce the amount of the NAB facility provided in the 2009 Supplemental Appropriations Act, and increase the quota by an equal amount. The Administration also proposes to reflect the costs of these transactions on a present value basis. Under the proposed treatment, the budget would still reflect obligations and outlays for the present value cost to Government, and costs would be the same as those estimated under FCRA. However, there would be no additional fair value market risk premium added to the cost. The change also provides Treasury flexibility to account for the nominal cash flows with the IMF in a manner more consistent with how the facilities operate. Increases to the quota and the NAB provided in the 2009 Supplemental Appropriations Act would be restated to reflect the same present value treatment, and recorded in the same accounts with changes resulting from the 2010 Agreement. The Budget assumes enactment of this proposal in 2015.

### Investments of the National Railroad Retirement Investment Trust

Under longstanding rules, the budget has generally treated investments in non-Federal equities and debt securities as a purchase of an asset, recording an obligation and an outlay in an amount equal to the purchase price in the year of the purchase. Since investments in non-Federal equities or debt securities consume cash, fund balances (of funds available for obligation) are normally reduced by the amounts paid for these purchases. However, as previously noted, the purchase of equity securities through TARP is recorded on a credit basis, with an outlay recorded in the amount of the estimated subsidy cost. In addition, the Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107–90) requires purchases or sales of non-Federal assets by the National Railroad Retirement Investment Trust (NRRIT) to be treated as a means of financing in the budget, rather than as an outlay.

Earnings on investments by the NRRIT in private assets pose special challenges for budget projections. Over long periods, equities and private bonds are expected to earn a higher return on average than the Treasury rate, but that return is subject to greater uncertainty. Sound budgeting principles require that estimates of future trust fund balances reflect both the average return on investments, and the cost of risk associated with the uncertainty of that return. (The latter is particularly true in cases where individual beneficiaries have not made a voluntary choice to assume additional risk.) Estimating both of these separately is quite difficult. While the gains and losses that these assets have experienced in the past are known, it is quite possible that such premiums will differ in the future. Furthermore, there is no existing procedure for the budget to record separately the cost of risk from such an investment, even if it could be estimated accurately. Economic theory suggests, however, that the difference between the expected return of a risky liquid asset and the Treasury rate is equal to the cost of the asset's additional risk as priced by the market net of administrative and transaction costs. Following through on this insight, the best way to project the rate of return on the Fund's balances is probably to use a Treasury rate. As a result, the Budget treats equivalently NRRIT investments with equal economic value as measured by market prices, avoiding the appearance that the budget would be expected to benefit if the Government bought private sector assets.

The actual and estimated returns to private (debt and equity) securities are recorded in subfunction 909, other investment income. The actual-year returns include interest, dividends, and capital gains and losses on private equities and other securities. The Fund's portfolio of these assets is revalued at market prices at the end of each month to determine capital gains or losses. As a result, the Fund's balance at any given point reflects the current market value of resources available to the Government to finance benefits. Earnings for the remainder of the current year and for future years are estimated using the 10-year Treasury rate and the value of the Fund's portfolio at the end of the actual year. No estimates are made of gains and losses for the remainder of the current year or for subsequent years.

## FEDERAL EMPLOYMENT

The budget includes information on civilian and military employment. It also includes information on related personnel compensation and benefits and on staffing requirements at overseas missions. Chapter 8 of this volume, "Improving the Federal Workforce," provides employment levels measured in full-time equivalents (FTE). Agency FTEs are the measure of total hours worked by an agency's Federal employees divided by the total number of one person's compensable work hours in a fiscal year.

## BASIS FOR BUDGET FIGURES

### Data for the Past Year

The past year column (2013) generally presents the actual transactions and balances as recorded in agency accounts and as summarized in the central financial reports prepared by the Treasury Department for the most recently completed fiscal year. Occasionally, the budget reports corrections to data reported erroneously to Treasury but not discovered in time to be reflected in Treasury's published data. In addition, in certain cases the Budget has a broader scope and includes financial transactions that are not reported to Treasury (see Chapter 27 of this volume, "Comparison of Actual to Estimated Totals," for a summary of these differences).

### Data for the Current Year

The current year column (2014) includes estimates of transactions and balances based on the amounts of budgetary resources that were available when the budget was prepared. In cases where the budget proposes policy changes effective in the current year, the data will also reflect the budgetary effect of those proposed changes.

### Data for the Budget Year

The budget year column (2015) includes estimates of transactions and balances based on the amounts of budgetary resources that are estimated to be available, including new budget authority requested under current authorizing legislation, and amounts estimated to result from changes in authorizing legislation and tax laws.

The budget *Appendix* generally includes the appropriations language for the amounts proposed to be appropriated under current authorizing legislation. In a few cases, this language is transmitted later because the exact requirements are unknown when the budget is transmitted. The *Appendix* generally does not include appropriations language for the amounts that will be requested under proposed legislation; that language is usually transmitted later, after the legislation is enacted. Some tables in the budget identify the items for later transmittal and the related outlays separately. Estimates of the total requirements for the budget year include both the amounts requested with the transmittal of the budget and the amounts planned for later transmittal.

### Data for the Outyears

The budget presents estimates for each of the nine years beyond the budget year (2016 through 2024) in order to reflect the effect of budget decisions on objectives and plans over a longer period.

### Allowances

The budget may include lump-sum allowances to cover certain transactions that are expected to increase or decrease budget authority, outlays, or receipts but are not, for various reasons, reflected in the program details. For example, the budget might include an allowance to show the effect on the budget totals of a proposal that would affect many accounts by relatively small amounts, in order to avoid unnecessary detail in the presentations for the individual accounts.

This year's Budget, like last year's, includes an allowance for the costs of possible future natural disasters.

### Baseline

The budget baseline is an estimate of the receipts, outlays, and deficits or surpluses that would occur if no changes were made to current laws and policies during the period covered by the budget. The baseline assumes that receipts and mandatory spending, which generally are authorized on a permanent basis, will continue in the future consistent with current law and policy. The baseline assumes that the future funding for most discretionary programs, which generally are funded annually, will equal the most recently enacted appropriation, adjusted for inflation.

Baseline outlays represent the amount of resources that would be used by the Government over the period covered by the budget on the basis of laws currently enacted.

The baseline serves several useful purposes:

- It may warn of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs.
- It may provide a starting point for formulating the President's Budget.
- It may provide a "policy-neutral" benchmark against which the President's Budget and alternative proposals can be compared to assess the magnitude of proposed changes.

A number of significant changes in policies are embedded in the baseline rules specified in the BBEDCA, as amended. For example, certain provisions relating to the child tax credit, earned income tax credit, and American opportunity tax credit that were originally enacted in the American Recovery and Reinvestment Act (ARRA) of 2009 and recently extended for five years are scheduled under current law to expire at the end of 2017. As another example, the BBEDCA baseline rules for discretionary programs would inflate discretionary spending for future years above the statutory caps that limit such spending. Because the expiration of the ARRA tax credit provisions and the inflation of discretionary spending above the statutory caps would create significant differences between the BBEDCA baseline and policies in effect this year, the Administration also issues an adjusted baseline that, unlike the BBEDCA baseline, assumes such changes in policy will not occur. (Chapter 25 of this volume, "Current Services Estimates," provides more information on the baseline, including the differences between the baseline as calculated under the rules of the BBEDCA and the adjusted baseline used in this Budget.)

## PRINCIPAL BUDGET LAWS

The following basic laws govern the Federal budget process:

***Article 1, section 8, clause 1 of the Constitution***, which empowers the Congress to collect taxes.

***Article 1, section 9, clause 7 of the Constitution***, which requires appropriations in law before money may be spent from the Treasury and the publication of a regular statement of the receipts and expenditures of all public money.

***Antideficiency Act (codified in Chapters 13 and 15 of Title 31, United States Code),*** which prescribes rules and procedures for budget execution.

***Balanced Budget and Emergency Deficit Control Act of 1985, as amended,*** which establishes limits on discretionary spending and provides mechanisms for enforcing discretionary spending limits.

***Chapter 11 of Title 31, United States Code***, which prescribes procedures for submission of the President's budget and information to be contained in it.

***Congressional Budget and Impoundment Control Act of 1974 (Public Law 93–344),*** as amended. This Act comprises the:

- ***Congressional Budget Act of 1974***, as amended, which prescribes the congressional budget process; and
- ***Impoundment Control Act of 1974***, which controls certain aspects of budget execution.
- ***Federal Credit Reform Act of 1990, as amended (2 USC 661–661f),*** which the Budget Enforcement Act of 1990 included as an amendment to the Congressional Budget Act to prescribe the budget treatment for Federal credit programs.

***Government Performance and Results Act of 1993 (Public Law 103–62, as amended)*** which emphasizes managing for results. It requires agencies to prepare strategic plans, annual performance plans, and annual performance reports.

***Statutory Pay-As-You-Go Act of 2010,*** which establishes a budget enforcement mechanism generally requiring that direct spending and revenue legislation enacted into law not increase the deficit.

## GLOSSARY OF BUDGET TERMS

***Account*** refers to a separate financial reporting unit used by the Federal government to record budget authority, outlays and income for budgeting or management information purposes as well as for accounting purposes. All budget (and off-budget) accounts are classified as being either expenditure or receipt accounts and by fund group. Budget (and off-budget) transactions fall within either of two fund group: (1) Federal funds and (2) trust funds. (Cf. Federal funds group and trust funds group.)

***Accrual method of measuring cost*** means an accounting method that records cost when the liability is incurred. As applied to Federal employee retirement benefits, accrual costs are recorded when the benefits are earned rather than when they are paid at some time in the future. The accrual method is used in part to provide data that assists in agency policymaking, but not used in presenting the overall budget of the United States Government.

***Advance appropriation*** means appropriations of new budget authority that become available one or more fiscal years beyond the fiscal year for which the appropriation act was passed.

***Advance funding*** means appropriations of budget authority provided in an appropriations act to be used, if necessary, to cover obligations incurred late in the fiscal year for benefit payments in excess of the amount specifically appropriated in the act for that year, where the budget authority is charged to the appropriation for the program for the fiscal year following the fiscal year for which the appropriations act is passed.

***Agency*** means a department or other establishment of the Government.

***Allowance*** means a lump-sum included in the budget to represent certain transactions that are expected to increase or decrease budget authority, outlays, or receipts but that are not, for various reasons, reflected in the program details.

***Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA)*** refers to legislation that altered the budget process, primarily by replacing the earlier fixed targets for annual deficits with a Pay-As-You-Go requirement for new tax or mandatory spending legislation and with caps on annual discretionary funding. The Statutory Pay-As-You-Go Act of 2010, which is a standalone piece of legislation that did not directly amend the BBEDCA, reinstated a statutory pay-as-you-go rule for revenues and mandatory spending legislation, and the Budget Control Act of 2011, which did amend BBEDCA, reinstated discretionary caps on budget authority.

***Balances of budget authority*** means the amounts of budget authority provided in previous years that have not been outlayed.

***Baseline*** means a projection of the estimated receipts, outlays, and deficit or surplus that would result from continuing current law or current policies through the period covered by the budget.

***Budget*** means the Budget of the United States Government, which sets forth the President's comprehensive financial plan for allocating resources and indicates the President's priorities for the Federal Government.

***Budget authority (BA)*** means the authority provided by law to incur financial obligations that will result in outlays. (For a description of the several forms of budget authority, see "Budget Authority and Other Budgetary Resources" earlier in this chapter.)

***Budget Control Act of 2011*** refers to legislation that, among other things, amended BBEDCA to reinstate discretionary spending limits on budget authority through 2021 and restored the process for enforcing those spending limits. The legislation also increased the statutory debt ceiling; created a Joint Select Committee on Deficit Reduction that was instructed to develop a bill to reduce the Federal deficit by at least $1.5 trillion over a 10-year period. It also provided a process to implement alternative spending reductions in the event that legislation achieving at least $1.2 trillion of deficit reduction was not enacted.

***Budget resolution***—see concurrent resolution on the budget.

***Budget totals*** mean the totals included in the budget for budget authority, outlays, receipts, and the surplus or deficit. Some presentations in the budget distinguish on-budget totals from off-budget totals. On-budget totals reflect the transactions of all Federal Government entities except those excluded from the budget totals by law. Off-budget totals reflect the transactions of Government entities that are excluded from the on-budget totals by law. Under current law, the off-budget totals include the Social Security trust funds (Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds) and the Postal Service Fund. The budget combines the on- and off-budget totals to derive unified (i.e. consolidated) totals for Federal activity.

***Budget year*** refers to the fiscal year for which the budget is being considered, that is, with respect to a session of Congress, the fiscal year of the government that starts on October 1 of the calendar year in which that session of Congress begins.

***Budgetary resources*** mean amounts available to incur obligations in a given year. The term comprises new budget authority and unobligated balances of budget authority provided in previous years.

***Cap*** means the legal limits for each fiscal year under BBEDCA on the budget authority and outlays (only if applicable) provided by discretionary appropriations.

***Cap adjustment*** means either an increase or a decrease that is permitted to the statutory cap limits for each fiscal year under BBEDCA on the budget authority and outlays (only if applicable) provided by discretionary appropriations only if certain conditions are met. These conditions may include providing for a base level of funding, a designation of the increase or decrease by the Congress, (and in some circumstances, the President) pursuant to a section of the BBEDCA, or a change in concepts and definitions of funding under the cap. Changes in concepts and definitions require consultation with the Congressional Appropriations and Budget Committees.

***Cash equivalent transaction*** means a transaction in which the Government makes outlays or receives collections in a form other than cash or the cash does not accurately measure the cost of the transaction. (For examples, see the section on "Outlays" earlier in this chapter.)

***Collections*** mean money collected by the Government that the budget records as a governmental receipt, an offsetting collection, or an offsetting receipt.

***Concurrent resolution*** on the budget refers to the concurrent resolution adopted by the Congress to set budgetary targets for appropriations, mandatory spending legislation, and tax legislation. These concurrent resolutions are required by the Congressional Budget Act of 1974, and are generally adopted annually.

***Continuing resolution*** means an appropriations act that provides for the ongoing operation of the Government in the absence of enacted appropriations.

***Cost*** refers to legislation or administrative actions that increase outlays or decrease receipts. (Cf. savings.)

***Credit program account*** means a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to a financing account.

***Current services estimate***—see Baseline.

***Debt held by the public*** means the cumulative amount of money the Federal Government has borrowed from the public and not repaid.

***Debt held by the public net of financial assets*** means the cumulative amount of money the Federal Government has borrowed from the public and not repaid, minus the current value of financial assets such as loan assets, bank deposits, or private-sector securities or equities held by the Government and plus the current value of financial liabilities other than debt.

***Debt held by Government accounts*** means the debt the Treasury Department owes to accounts within the Federal Government. Most of it results from the surpluses of the Social Security and other trust funds, which are required by law to be invested in Federal securities.

***Debt limit*** means the maximum amount of Federal debt that may legally be outstanding at any time. It includes both the debt held by the public and the debt held by Government accounts, but without accounting for offsetting financial assets. When the debt limit is reached, the Government cannot borrow more money until the Congress has enacted a law to increase the limit.

***Deficit*** means the amount by which outlays exceed receipts in a fiscal year. It may refer to the on-budget, off-budget, or unified budget deficit.

***Direct loan*** means a disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest. The term includes the purchase of, or participation in, a loan made by another lender. The term also includes the sale of a Government asset on credit terms of more than 90 days duration as well as financing arrangements for other transactions that defer payment for more than 90 days. It also includes loans financed by the Federal Financing Bank (FFB) pursuant to agency loan guarantee authority. The term does not include the acquisition of a federally guaranteed loan in satisfaction of default or other guarantee claims or the price support "loans" of the Commodity Credit Corporation. (Cf. loan guarantee.)

***Direct spending***—see mandatory spending.

***Disaster funding*** means a discretionary appropriation that is enacted that the Congress designates as being for disaster relief. Such amounts are a cap adjustment to the limits on discretionary spending under BBEDCA. The total adjustment for this purpose cannot exceed a ceiling for a particular year that is defined as the total of the average funding provided for disaster relief over the previous 10 years (excluding the highest and lowest years) and the unused amount of the prior year's ceiling (excluding the portion of the prior year's ceiling that was itself due to any unused amount from the year before). Disaster relief is defined as activities carried out pursuant to a determination under section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

***Discretionary spending*** means budgetary resources (except those provided to fund mandatory spending programs) provided in appropriations acts. (Cf. mandatory spending.)

***Emergency requirement*** means an amount that the Congress has designated as an emergency requirement. Such amounts are not included in the estimated budgetary effects of PAYGO legislation under the requirements of the Statutory Pay-As-You-Go Act of 2010, if they are mandatory or receipts. Such a discretionary appropriation that is subsequently designated by the President as an emergency requirement results in a cap adjustment to the limits on discretionary spending under BBEDCA.

***Entitlement*** refers to a program in which the Federal Government is legally obligated to make payments or provide aid to any person who, or State or local government that, meets the legal criteria for eligibility. Examples include Social Security, Medicare, Medicaid, and Food Stamps.

***Federal funds group*** refers to the moneys collected and spent by the Government through accounts other than those designated as trust funds. Federal funds include general, special, public enterprise, and intragovernmental funds. (Cf. trust funds group.)

***Financing account*** means a non-budgetary account (an account whose transactions are excluded from the budget totals) that records all of the cash flows resulting from post-1991 direct loan obligations or loan guarantee commitments. At least one financing account is associated with each credit program account. For programs that make both direct loans and loan guarantees, separate financing accounts are required for direct loan cash flows and for loan guarantee cash flows. (Cf. liquidating account.)

***Fiscal year*** means the Government's accounting period. It begins on October 1st and ends on September 30th, and is designated by the calendar year in which it ends.

***Forward funding*** means appropriations of budget authority that are made for obligation starting in the last quarter of the fiscal year for the financing of ongoing grant programs during the next fiscal year.

***General fund*** means the accounts in which are recorded governmental receipts not earmarked by law for a specific purpose, the proceeds of general borrowing, and the expenditure of these moneys.

***Government sponsored enterprises*** mean private enterprises that were established and chartered by the Federal Government for public policy purposes. They are classified as non-budgetary and not included in the Federal budget because they are private companies, and their securities are not backed by the full faith and credit of the Federal Government. However, the budget presents statements of financial condition for certain Government sponsored enterprises such as the Federal National Mortgage Association. (Cf. off-budget.)

***Intragovernmental fund*** —see Revolving fund.

***Liquidating account*** means a budget account that records all cash flows to and from the Government resulting from pre-1992 direct loan obligations or loan guarantee commitments. (Cf. financing account.)

***Loan guarantee*** means any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. The term does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. (Cf. direct loan.)

***Mandatory spending*** means spending controlled by laws other than appropriations acts (including spending for entitlement programs) and spending for the food stamp program. Although the Statutory Pay-As-You-Go Act of 2010 uses the term direct spending to mean this, mandatory spending is commonly used instead. (Cf. discretionary spending.)

***Means of financing*** refers to borrowing, the change in cash balances, and certain other transactions involved in financing a deficit. The term is also used to refer to the debt repayment, the change in cash balances, and certain other transactions involved in using a surplus. By definition, the means of financing are not treated as receipts or outlays and so are non-budgetary.

***Obligated balance*** means the cumulative amount of budget authority that has been obligated but not yet outlayed. (Cf. unobligated balance.)

***Obligation*** means a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

***Off-budget*** refers to transactions of the Federal Government that would be treated as budgetary had the Congress not designated them by statute as "off-budget." Currently, transactions of the Social Security trust funds and the Postal Serviceare the only sets of transactions that are so designated. The term is sometimes used more broadly to refer to the transactions of private enterprises that were established and sponsored by the Government, most especially "Government sponsored enterprises" such as the Federal Home Loan Banks. (Cf. budget totals.)

***Offsetting collections*** mean collections that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, they are authorized to be spent for the purposes of the account without further action by the Congress. They result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend offsetting collections is a form of budget authority. (Cf. receipts and offsetting receipts.)

***Offsetting receipts*** mean collections that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriation acts before they can be spent. Like offsetting collections, they result from business-like transactions or market-oriented activities with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. (Cf. receipts, undistributed offsetting receipts, and offsetting collections.)

***On-budget*** refers to all budgetary transactions other than those designated by statute as off-budget (Cf. budget totals.)

***Outlay*** means a payment to liquidate an obligation (other than the repayment of debt principal or other disbursements that are "means of financing" transactions). Outlays generally are equal to cash disbursements, but also are recorded for cash-equivalent transactions, such as the issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are the measure of Government spending.

***Outyear estimates*** mean estimates presented in the budget for the years beyond the budget year of budget authority, outlays, receipts, and other items (such as debt).

***Overseas Contingency Operations/Global War on Terrorism*** (OCO/GWOT) means a discretionary appropriation that is enacted that the Congress and, subsequently, the President have so designated on an account by account basis. Such a discretionary appropriation that is designated as OCO/GWOT results in a cap adjustment to the limits on discretionary spending under BBEDCA. Funding for these purposes has most recently been associated with the wars in Iraq and Afghanistan.

***Pay-as-you-go (PAYGO)*** refers to requirements of the Statutory Pay-As-You-Go Act of 2010 that result in a sequestration if the estimated combined result of new legislation affecting direct spending or revenue increases the on-budget deficit relative to the baseline, as of the end of a congressional session.

***Public enterprise fund*** **—**see Revolving fund.

***Reappropriation*** means a provision of law that extends into a new fiscal year the availability of unobligated amounts that have expired or would otherwise expire.

***Receipts*** mean collections that result from the Government's exercise of its sovereign power to tax or otherwise compel payment. They are compared to outlays in calculating a surplus or deficit. (Cf. offsetting collections and offsetting receipts.)

***Revolving fund*** means a fund that conducts continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. There are two types of revolving funds: Public enterprise funds, which conduct business-like operations mainly with the public, and intragovernmental revolving funds, which conduct business-like operations mainly within and between Government agencies. (Cf. special fund and trust fund.)

***Savings*** refers to legislation or administrative actions that decrease outlays or increase receipts. (Cf. cost.)

***Scorekeeping*** means measuring the budget effects of legislation, generally in terms of budget authority, receipts, and outlays, for purposes of measuring adherence to the Budget or to budget targets established by the Congress, as through agreement to a Budget Resolution.

***Sequestration*** means the cancellation of budgetary resources. The Statutory Pay-As-You-Go Act of 2010 requires such cancellations if revenue or direct spending legislation is enacted that, in total, increases projected deficits or reduces projected surpluses relative to the baseline. The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, requires such cancellations if discretionary appropriations exceed the statutory limits on discretionary spending.

***Special fund*** means a Federal fund account for receipts or offsetting receipts earmarked for specific purposes and the expenditure of these receipts. (Cf. revolving fund and trust fund.)

***Statutory Pay-As-You-Go Act of 2010*** refers to legislation that reinstated a statutory pay-as-you-go requirement for new tax or mandatory spending legislation. The law is a standalone piece of legislation that cross-references BBEDCA but does not directly amend that legislation. This is a permanent law and does not expire.

***Subsidy*** means the estimated long-term cost to the Government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays.

***Surplus*** means the amount by which receipts exceed outlays in a fiscal year. It may refer to the on-budget, off-budget, or unified budget surplus.

***Supplemental appropriation*** means an appropriation enacted subsequent to a regular annual appropriations act, when the need for additional funds is too urgent to be postponed until the next regular annual appropriations act.

***Trust fund*** refers to a type of account, designated by law as a trust fund, for receipts or offsetting receipts dedicated to specific purposes and the expenditure of these receipts. Some revolving funds are designated as trust funds, and these are called trust revolving funds. (Cf. special fund and revolving fund.)

***Trust funds group*** refers to the moneys collected and spent by the Government through trust fund accounts. (Cf. Federal funds group.)

***Undistributed offsetting receipts*** mean offsetting receipts that are deducted from the Government-wide totals for budget authority and outlays instead of being offset against a specific agency and function. (Cf. offsetting receipts.)

***Unified budget*** includes receipts from all sources and outlays for all programs of the Federal Government, including both on- and off-budget programs. It is the most comprehensive measure of the Government's annual finances.

***Unobligated balance*** means the cumulative amount of budget authority that remains available for obligation under law in unexpired accounts. The term "expired balances available for adjustment only" refers to unobligated amounts in expired accounts.

***User charges*** are charges assessed for the provision of Government services and for the sale or use of Government goods or resources. The payers of the user charge must be limited in the authorizing legislation to those receiving special benefits from, or subject to regulation by, the program or activity beyond the benefits received by the general public or broad segments of the public (such as those who pay income taxes or custom duties).

# 10. COVERAGE OF THE BUDGET

The budget serves as the central instrument of national policy making. It is the Government's financial plan for proposing and deciding the allocation of resources to serve national objectives. The budget provides information on the cost and scope of Federal activities to inform decisions and serves as a means to control the allocation of resources. When enacted, it establishes the level of public goods and services provided by the Government, reflecting the fiscal policy of the Government for promoting high employment, price stability, healthy growth of the national economy, and equilibrium in the balance of payments.

Federal Government activities that involve the direct and measurable allocation of Federal resources are characterized as "budgetary." The payments to and from the public resulting from these activities are included in the budget's measures of receipts and expenditures. In contrast, Federal activities that do not involve the direct and measurable allocation of Federal resources are characterized as "non-budgetary," and are not included in the budget's measures of receipts and expenditures. However, the budget documents include information on some non-budgetary activities, because they can be important instruments of Federal policy and because the data provide insight into the scope and nature of Federal activities. For example, data on the deposit funds owned by Native American Indian Tribes are not included in the budget because these funds are privately owned. The Government manages these funds only in a fiduciary capacity. The budget includes information on cashflows that are a means of financing Federal activity to provide insight into the transactions. However, means of financing amounts are not included in the estimates of receipts or expenditures to avoid double-counting—the costs of the underlying Federal activities are already reflected in the deficit.[1] Similarly, while budget totals of receipts and expenditures do not include non-Federal costs resulting from Federal regulation, the Office of Management and Budget (OMB) annually reports on the costs and benefits of Federal regulation to non-Federal entities.[2] The budget includes detailed information on budgetary activities and selected information on non-budgetary activities.

## Budgetary Activities

The Federal Government has used the unified budget concept as the foundation for its budgetary analysis and presentation since 1968, starting with the 1969 Budget. This change implemented a recommendation made by the 1967 President's Commission on Budget Concepts (Commission) to include the financial transactions of all of the Federal Government's programs and agencies. For this reason, the budget includes information on the financial transactions of all 15 Executive departments, all independent agencies (from all three branches of Government), and all Government corporations. Government corporations are designated by statute.[3] Many, though not all, Government corporations are entities with business-type operations, and charge the public for services at prices intended to allow the entity to be self-sustaining. Often these entities are more independent in nature than other agencies, and have limited exemptions from certain Federal personnel requirements to allow for flexibility. Government corporations are distinct from Government-Sponsored Enterprises (GSEs), which, as discussed below, are private entities and therefore are classified as non-budgetary.

All accounts in Table 29-1, "Federal Budget by Agency and Account," in the supplemental materials to this volume are budgetary.[4] The majority of budgetary accounts are associated with the departments or other entities that are clearly Federal agencies. Some budgetary accounts reflect Government payments to entities that were created by the Government as private or non-Federal entities and some of these entities receive all or a majority of their funding from the Government. These include the Corporation for Public Broadcasting, Gallaudet University, Howard University, the Legal Services Corporation, the National Railroad Passenger Corporation (Amtrak), the Smithsonian Institution, the State Justice Institute, and the United States Institute of Peace. Although the Federal payments to these entities are budgetary, the entities themselves are non-budgetary, as discussed below.

Whether an entity was created or chartered by the Government does not alone determine its budgetary status. The Commission recommended that the budget be comprehensive, but it also recognized that proper budgetary classification would require weighing all relevant factors regarding establishment, ownership, and control of an entity. Generally, entities that are primarily owned

[1] For more information on means of financing, please see the "Budget Deficit or Surplus and Means of Financing" section of chapter 9, "Budget Concepts," in this volume.

[2] For the 2013 draft of the "Report to Congress on the Benefits and Costs of Federal Regulation and Agency Compliance with the Unfunded Mandates Act," see *http://www.whitehouse.gov/sites/default/files/omb/inforeg/2013_cb/draft_2013_cost_benefit_report.pdf*.

[3] Government corporations are Government entities that are defined as corporations pursuant to the Government Corporation Control Act, as amended (31 U.S.C. 9101), or elsewhere in law. Examples include the Commodity Credit Corporation, the Export-Import Bank of the United States, the Federal Crop Insurance Corporation, the Federal Deposit Insurance Corporation, the Millennium Challenge Corporation, the Overseas Private Investment Corporation, the Pension Benefit Guaranty Corporation, the Tennessee Valley Authority, the African Development Foundation (22 U.S.C. 290h-6), the Inter-American Foundation (22 U.S.C. 290f), the Presidio Trust (16 U.S.C. 460bb note), and the Valles Caldera Trust (16 U.S.C. 698v-4).

[4] Table 29-1 can be found on the Budget CD-ROM and on the Internet at: *http://www.budget.gov/budget/analytical_perspectives*.

**Table 10–1. COMPARISON OF TOTAL, ON-BUDGET, AND OFF-BUDGET TRANSACTIONS[1]**
(In billions of dollars)

| Fiscal Year | Receipts | | | Outlays | | | Surplus or deficit (–) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | On-budget | Off-budget | Total | On-budget | Off-budget | Total | On-budget | Off-budget |
| 1980 | 517.1 | 403.9 | 113.2 | 590.9 | 477.0 | 113.9 | –73.8 | –73.1 | –0.7 |
| 1981 | 599.3 | 469.1 | 130.2 | 678.2 | 543.0 | 135.3 | –79.0 | –73.9 | –5.1 |
| 1982 | 617.8 | 474.3 | 143.5 | 745.7 | 594.9 | 150.9 | –128.0 | –120.6 | –7.4 |
| 1983 | 600.6 | 453.2 | 147.3 | 808.4 | 660.9 | 147.4 | –207.8 | –207.7 | –0.1 |
| 1984 | 666.4 | 500.4 | 166.1 | 851.8 | 685.6 | 166.2 | –185.4 | –185.3 | –0.1 |
| 1985 | 734.0 | 547.9 | 186.2 | 946.3 | 769.4 | 176.9 | –212.3 | –221.5 | 9.2 |
| 1986 | 769.2 | 568.9 | 200.2 | 990.4 | 806.8 | 183.5 | –221.2 | –237.9 | 16.7 |
| 1987 | 854.3 | 640.9 | 213.4 | 1,004.0 | 809.2 | 194.8 | –149.7 | –168.4 | 18.6 |
| 1988 | 909.2 | 667.7 | 241.5 | 1,064.4 | 860.0 | 204.4 | –155.2 | –192.3 | 37.1 |
| 1989 | 991.1 | 727.4 | 263.7 | 1,143.7 | 932.8 | 210.9 | –152.6 | –205.4 | 52.8 |
| 1990 | 1,032.0 | 750.3 | 281.7 | 1,253.0 | 1,027.9 | 225.1 | –221.0 | –277.6 | 56.6 |
| 1991 | 1,055.0 | 761.1 | 293.9 | 1,324.2 | 1,082.5 | 241.7 | –269.2 | –321.4 | 52.2 |
| 1992 | 1,091.2 | 788.8 | 302.4 | 1,381.5 | 1,129.2 | 252.3 | –290.3 | –340.4 | 50.1 |
| 1993 | 1,154.3 | 842.4 | 311.9 | 1,409.4 | 1,142.8 | 266.6 | –255.1 | –300.4 | 45.3 |
| 1994 | 1,258.6 | 923.5 | 335.0 | 1,461.8 | 1,182.4 | 279.4 | –203.2 | –258.8 | 55.7 |
| 1995 | 1,351.8 | 1,000.7 | 351.1 | 1,515.7 | 1,227.1 | 288.7 | –164.0 | –226.4 | 62.4 |
| 1996 | 1,453.1 | 1,085.6 | 367.5 | 1,560.5 | 1,259.6 | 300.9 | –107.4 | –174.0 | 66.6 |
| 1997 | 1,579.2 | 1,187.2 | 392.0 | 1,601.1 | 1,290.5 | 310.6 | –21.9 | –103.2 | 81.4 |
| 1998 | 1,721.7 | 1,305.9 | 415.8 | 1,652.5 | 1,335.9 | 316.6 | 69.3 | –29.9 | 99.2 |
| 1999 | 1,827.5 | 1,383.0 | 444.5 | 1,701.8 | 1,381.1 | 320.8 | 125.6 | 1.9 | 123.7 |
| 2000 | 2,025.2 | 1,544.6 | 480.6 | 1,789.0 | 1,458.2 | 330.8 | 236.2 | 86.4 | 149.8 |
| 2001 | 1,991.1 | 1,483.6 | 507.5 | 1,862.8 | 1,516.0 | 346.8 | 128.2 | –32.4 | 160.7 |
| 2002 | 1,853.1 | 1,337.8 | 515.3 | 2,010.9 | 1,655.2 | 355.7 | –157.8 | –317.4 | 159.7 |
| 2003 | 1,782.3 | 1,258.5 | 523.8 | 2,159.9 | 1,796.9 | 363.0 | –377.6 | –538.4 | 160.8 |
| 2004 | 1,880.1 | 1,345.4 | 534.7 | 2,292.8 | 1,913.3 | 379.5 | –412.7 | –568.0 | 155.2 |
| 2005 | 2,153.6 | 1,576.1 | 577.5 | 2,472.0 | 2,069.7 | 402.2 | –318.3 | –493.6 | 175.3 |
| 2006 | 2,406.9 | 1,798.5 | 608.4 | 2,655.0 | 2,233.0 | 422.1 | –248.2 | –434.5 | 186.3 |
| 2007 | 2,568.0 | 1,932.9 | 635.1 | 2,728.7 | 2,275.0 | 453.6 | –160.7 | –342.2 | 181.5 |
| 2008 | 2,524.0 | 1,865.9 | 658.0 | 2,982.5 | 2,507.8 | 474.8 | –458.6 | –641.8 | 183.3 |
| 2009 | 2,105.0 | 1,451.0 | 654.0 | 3,517.7 | 3,000.7 | 517.0 | –1,412.7 | –1,549.7 | 137.0 |
| 2010 | 2,162.7 | 1,531.0 | 631.7 | 3,457.1 | 2,902.4 | 554.7 | –1,294.4 | –1,371.4 | 77.0 |
| 2011 | 2,303.5 | 1,737.7 | 565.8 | 3,603.1 | 3,104.5 | 498.6 | –1,299.6 | –1,366.8 | 67.2 |
| 2012 | 2,450.2 | 1,880.7 | 569.5 | 3,537.1 | 3,029.5 | 507.6 | –1,087.0 | –1,148.9 | 61.9 |
| 2013 estimate | 2,775.1 | 2,101.8 | 673.3 | 3,454.6 | 2,820.8 | 633.8 | –679.5 | –719.0 | 39.5 |
| 2014 estimate | 3,001.7 | 2,269.4 | 732.3 | 3,650.5 | 2,939.3 | 711.2 | –648.8 | –669.9 | 21.1 |
| 2015 estimate | 3,337.4 | 2,579.5 | 757.9 | 3,901.0 | 3,143.4 | 757.6 | –563.6 | –563.8 | 0.3 |
| 2016 estimate | 3,568.0 | 2,756.5 | 811.5 | 4,099.1 | 3,291.5 | 807.6 | –531.1 | –535.1 | 3.9 |
| 2017 estimate | 3,810.8 | 2,960.9 | 849.8 | 4,268.6 | 3,409.1 | 859.5 | –457.8 | –448.1 | –9.7 |
| 2018 estimate | 4,029.9 | 3,132.1 | 897.8 | 4,443.1 | 3,527.3 | 915.8 | –413.3 | –395.3 | –18.0 |
| 2019 estimate | 4,226.1 | 3,281.0 | 945.1 | 4,728.8 | 3,752.6 | 976.2 | –502.7 | –471.6 | –31.1 |

[1] Off-budget transactions consist of the Social Security trust funds and the Postal Service fund.

and controlled by the Government are classified as budgetary. Determinations regarding the budgetary classification of entities are made by the OMB, the Congressional Budget Office (CBO), and the Budget Committees of the Congress.

***Off-budget Federal activities.***—Despite the Commission's recommendation that the budget be comprehensive, every year since 1971, at least one Federal program or agency that would otherwise be included in the budget has been presented as off-budget because of a legal requirement.[5] Such off-budget Federal activities are

[5] While the term "off-budget" is sometimes used colloquially to mean non-budgetary, the term has a meaning distinct from non-budgetary. Off-budget activities would be considered budgetary, absent legal requirement to exclude these activities from the budget totals.

funded by the Government and administered according to Federal legal requirements, but their net costs are excluded, by law, from the rest of the budget totals, which are also known as the "on-budget" totals. The budget reflects the legal distinction between on-budget activities and off-budget activities by showing outlays and receipts for both types of activities separately.

Although there is a legal distinction between on-budget and off-budget activities, conceptually there is no difference between the two. Off-budget Federal activities reflect the same kinds of governmental roles as on-budget activities, and result in outlays and receipts. Like on-budget activities, off-budget activities are funded and controlled by the Government. The "unified budget" reflects the conceptual similarity between on-budget and off-budget activities by showing combined totals of outlays and receipts for both.

Off-budget Federal activities currently consist of the U.S. Postal Service and the two Social Security Trust Funds: Old-Age and Survivors Insurance and Disability Insurance. Social Security has been classified as off-budget since 1986, and the Postal Service has been classified as off-budget since 1990.[6] Other activities that had been designated in law as off-budget at various times before 1986 have been classified as on-budget by law since at least 1985. Activities that were off-budget at one time but that are now on-budget are classified as on-budget for all years. Table 10–1 divides total Federal Government receipts, outlays, and the surplus or deficit between on-budget and off-budget amounts. Within this table, the Social Security and Postal Service transactions are classified as off-budget for all years to provide a consistent comparison over time.

Because Social Security is the largest single program in the unified budget and is classified by law as off-budget, the off-budget accounts constitute a significant part of total Federal spending and receipts. In 2015, off-budget receipts are an estimated 22.7 percent of total receipts and off-budget outlays are a smaller, but still significant, percentage of total outlays at 19.4 percent. The estimated unified budget deficit in 2015 is $563.6 billion—comprised of a $563.8 billion on-budget deficit and a $0.3 billion off-budget surplus. There is an off-budget surplus of $21.1 billion projected for 2014, almost entirely due to Social Security.[7] Social Security had small deficits or surpluses from its inception through the early 1980s and large and growing surpluses from the mid-1980s until 2008. The surplus fell sharply in 2009 because of the economic downturn, and Social Security is projected to remain in deficit after 2016 over the 10-year budget window. Without further legislative action, the trust funds will be depleted in 2033, according to the 2013 Social Security trustees' report.

### Non-Budgetary Activities

Some important Government activities are characterized as non-budgetary because they do not involve the direct allocation of resources by the Government.[8] Some of the Government's major non-budgetary activities are discussed below. Some of these activities affect budget outlays or receipts, even though they have components that are non-budgetary.

***Federal credit programs: budgetary and non-budgetary transactions.***—Federal credit programs make direct loans or guarantee private loans to non-Federal borrowers. The Federal Credit Reform Act of 1990 (FCRA), as amended by the Balanced Budget Act of 1997, established the current budgetary treatment for credit programs. Under FCRA, the budgetary cost of a credit program is known as the "subsidy cost." The subsidy cost is the estimated lifetime cost to the Government of a loan or a loan guarantee on a net present value basis, excluding administrative costs. Outlays equal to the subsidy cost are recorded in the budget up front as they are incurred—for example, when a loan is made or guaranteed. Credit program cash flows to and from the public underlying the subsidy cost are recorded in non-budgetary financing accounts, and the information is included in budget documents to provide insight into the program size and costs. For more information, the mechanisms of credit programs are discussed in more detail in Chapter 9 of this volume, "Budget Concepts," and credit programs are discussed in more detail in Chapter 20 of this volume, "Credit and Insurance."

***Deposit funds.***—Deposit funds are non-budgetary accounts that record amounts held by the Government temporarily until ownership is determined (such as earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (such as State income taxes withheld from Federal employees' salaries and not yet paid to the States). The largest deposit fund is the Government Securities Investment Fund, which is also known as the G-Fund. It is one of several investment funds managed by the Federal Retirement Thrift Investment Board, as an agent, for Federal employees who participate in the Government's defined contribution retirement plan, the Thrift Savings Plan (which is similar

[6] See 42 U.S.C. 911, and 39 U.S.C. 2009a, respectively. The off-budget Postal Service accounts consist of the Postal Service Fund, which is classified as a mandatory account and the Office of the Inspector General and the Postal Regulatory Commission, both of which are classified as discretionary accounts. The Postal Service Retiree Health Benefits Fund is an on-budget mandatory account with the Office of Personnel Management. The off-budget Social Security accounts consist of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, both of which have mandatory and discretionary funding.

[7] The 2015 off-budget surplus reflects a $0.7 billion deficit for Social Security, offset by a $1.0 billion surplus for the Postal Service. The estimated 2016 off-budget surplus reflects a $4.4 billion surplus for Social Security and a $0.5 billion deficit for the Postal Service. The projected 2017 off-budget deficit reflects a $10.1 billion deficit for Social Security and a $0.4 billion surplus for the Postal Service.

[8] Tax expenditures, which are discussed in Chapter 14 of this volume, are an example of Government activities that could be characterized as either budgetary or non-budgetary. Tax expenditures refer to the reduction in tax receipts resulting from the special tax treatment accorded certain private activities. Because tax expenditures reduce tax receipts and receipts are budgetary, tax expenditures clearly have budgetary effects. However, the size and composition of tax expenditures are not explicitly recorded in the budget as outlays or as negative receipts and, for this reason, tax expenditures might be considered a special case of non-budgetary transactions.

to private-sector 401(k) plans). Because the G-Fund assets, which are held by the Department of the Treasury, are the property of Federal employees and are held by the Government only in a fiduciary capacity, the transactions of the Fund are not resource allocations by the Government and are therefore non-budgetary.[9] For similar reasons, the budget excludes funds that are owned by Native American Indians but held and managed by the Government in a fiduciary capacity.

***Government-Sponsored Enterprises (GSEs).***—The Federal Government has chartered GSEs such as the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks, the Farm Credit System, and the Federal Agricultural Mortgage Corporation to provide financial intermediation for specified public purposes. Although federally-chartered to serve public-policy purposes, the GSEs are classified as non-budgetary. This is because they are intended to be privately owned and controlled, with any public benefits accruing indirectly from the GSEs' business transactions. Estimates of the GSEs' activities are reported in a separate chapter of the Budget *Appendix*, and their activities are discussed in Chapter 20 of this volume, "Credit and Insurance."

In September 2008, in response to the financial market crisis, the director of the Federal Housing Finance Agency (FHFA)[10] placed Fannie Mae and Freddie Mac into conservatorship for the purpose of preserving the assets and restoring the solvency of these two GSEs. As conservator, FHFA has broad authority to direct the operations of these GSEs. However, these GSEs remain private companies with Boards of Directors and management responsible for their day-to-day operations. This Budget continues to treat these two GSEs as non-budgetary private entities in conservatorship rather than as Government agencies. By contrast, CBO treats these GSEs as budgetary Federal agencies. Both treatments include budgetary and non-budgetary amounts.

All of the GSEs' transactions with the public are reflected as non-budgetary in the Budget, because the GSEs are not considered to be Government agencies. However, the payments from the Treasury to the GSEs are recorded as budgetary outlays and dividends received by the Treasury are recorded as budgetary receipts. Under CBO's approach, the subsidy costs, or expected losses over time, of Fannie Mae's and Freddie Mac's past credit activities have already been recorded in the budget estimates and the subsidy costs of future credit activities will be recorded when the activities occur. Lending and borrowing activities between the GSEs and the public apart from the subsidy costs are treated as non-budgetary by CBO, and Treasury payments to the GSEs are intragovernmental transfers (from Treasury to the GSEs) that net to zero in CBO's budget estimates.

Overall, both the Budget's accounting and CBO's accounting present Fannie Mae's and Freddie Mac's losses as Government outlays, which increase Government deficits. The two approaches, however, reflect the losses as budgetary costs at different times.

***Other federally-created non-budgetary entities.***—In addition to chartering the GSEs, the Federal Government has created a number of other entities that are classified as non-budgetary. These include federally-funded research and development centers (FFRDCs), non-appropriated fund instrumentalities (NAFIs), and other entities, some of which are incorporated as non-profit entities and some of which are incorporated as for-profit entities.[11]

FFRDCs are entities that conduct agency-specific research under contract or cooperative agreement. Most FFRDCs were created by and conduct research for the Departments of Defense and Energy, and most are administered by colleges, universities, or other non-profit entities. Examples of federally-funded research and development centers are the Center for Naval Analysis, Los Alamos National Laboratory, and the Jet Propulsion Laboratory.[12] Though FFRDCs are non-budgetary, Federal payments to the FFRDC are recorded as budget outlays. In addition to Federal funding, FFRDCs may receive funding from non-Federal sources.

Non-appropriated fund instrumentalities (NAFIs) are entities that support an agency's personnel (current and retired). Virtually all NAFIs are associated with the Departments of Defense, Homeland Security (Coast Guard), and Veterans Affairs. Most NAFIs are located on military bases and include the armed forces exchanges (which sell goods to military personnel and their fami-

[9] The administrative functions of the Federal Retirement Thrift Investment Board are carried out by Government employees and included in the budget totals.

[10] The Housing and Economic Recovery Act of 2008 (12 U.S.C. 4511), established the FHFA as the regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. FHFA reflects the merger of the Office of Federal Housing Enterprise Oversight, the Federal Housing Finance Board, and the Department of Housing and Urban Development's Government-sponsored enterprise mission team.

[11] Although most entities created by the Federal Government are budgetary, as discussed in this section, the GSEs and the Federal Reserve System were created by the Federal Government, but are classified as non-budgetary. In addition, Congress and the President have chartered, but not necessarily created, approximately 100 non-profit entities that are non-budgetary. These include patriotic, charitable, and educational organizations under Title 36 of the U.S. Code and foundations and trusts chartered under other titles of the Code. Title 36 corporations include the American Legion, the American National Red Cross, Big Brothers—Big Sisters of America, Boy Scouts of America, Future Farmers of America, Girl Scouts of the United States of America, the National Academy of Public Administration, the National Academy of Sciences, and Veterans of Foreign Wars of the United States. Virtually all of the non-profit entities chartered by the Government existed under State law prior to the granting of a Government charter, making the Government charter an honorary rather than governing charter. A major exception to this is the American National Red Cross. Its Government charter requires it to provide disaster relief and to ensure compliance with treaty obligations under the Geneva Convention. Although any Government payments (whether made as direct appropriations or through agency appropriations) to these chartered non-profits, including the Red Cross, would be budgetary, the non-profits themselves are classified as non-budgetary. On March 14, 2013, the Subcommittee on Immigration Policy and Enforcement of the Committee on the Judiciary in the U.S. House of Representatives adopted a policy prohibiting Congress from granting new Federal charters to private, non-profit organizations. This policy has been adopted by every subcommittee with jurisdiction over charters since the 101st Congress.

[12] The National Science Foundation maintains a list of FFRDCs at *www.nsf.gov/statistics/ffrdc*.

lies), recreational facilities, and child care centers. NAFIs are financed by the proceeds from the sale of goods or services and do not receive direct appropriations. As a result, they have been characterized as non-budgetary and any agency payments to the NAFIs are recorded as budget outlays.

As noted above in the section on "Budgetary Activities," a number of entities created by the Government receive a significant amount of non-Federal funding. In addition, some such entities are significantly controlled by non-Federal individuals or organizations. These entities include Gallaudet University, Howard University, the United States Enrichment Corporation, and the Universal Services Administrative Company, among others.[13] Most of these entities receive direct appropriations or other recurring payments from the Government, and the appropriations or other payments are budgetary and included in Table 29-1, mentioned above. However, many of these entities are themselves non-budgetary. Generally, entities that receive a significant portion of funding from non-Federal sources and that are not controlled by the Government are treated as non-budgetary.

***Regulation.***—Federal Government regulations often require the private sector or other levels of government make expenditures for specified purposes that are intended to have public benefits, such as workplace safety and pollution control. Although the budget reflects the Government's cost of conducting regulatory activities, the costs imposed on the private sector as a result of regulation are treated as non-budgetary and not included in the budget. The Government's regulatory priorities and plans are described in the annual Regulatory Plan and the semi-annual Unified Agenda of Federal Regulatory and Deregulatory Actions.[14]

The estimated costs and benefits of Federal regulation have been published annually by OMB since 1997. In the most recent report, OMB indicates that the estimated annual benefits of Federal regulations it reviewed from October 1, 2001, to September 30, 2012, range from $193 billion to $800 billion, while the estimated annual costs range from $57 billion to $84 billion. In its report, OMB discusses the impact of Federal regulation on State, local, and tribal governments, and agency compliance with the Unfunded Mandates Reform Act of 1995.

***Monetary policy.***— As a fiscal policy tool, the budget is used by elected Government officials to promote economic growth and achieve other public policy objectives. Monetary policy is another tool that governments use to promote public policy objectives. In the United States, monetary policy is conducted by the Federal Reserve System, which is composed of a Board of Governors and 12 regional Federal Reserve Banks. The Federal Reserve Act provides that the goal of monetary policy is to "maintain long-run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."[15] The dual goals of full employment and price stability were reaffirmed by the Full Employment and Balanced Growth Act of 1978, also known as the Humphrey-Hawkins Act.[16]

By law, the Federal Reserve System is a self-financing entity that is independent of the Executive Branch and subject only to broad oversight by the Congress. Consistent with the recommendations of the Commission, the effects of monetary policy and the actions of the Federal Reserve System are non-budgetary, with exceptions for excess income generated through its operations. The Federal Reserve System earns income from a variety of sources including interest on Government securities, foreign currency investments and loans to depository institutions, and fees for services (e.g., check clearing services) provided to depository institutions. The Federal Reserve System remits to Treasury any excess income over expenses annually. In 2013, Treasury recorded $75.8 billion in receipts from the Federal Reserve System. In addition to remitting excess income to Treasury, the Federal Reserve is required by law to transfer a portion of its excess earnings to the Consumer Financial Protection Bureau (CFPB), an independent bureau of the Federal Reserve.[17]

The Board of Governors of the Federal Reserve is a Federal Government agency, but because of its independent status, its budget is not subject to Executive Branch review and is included in the Budget *Appendix* for informational purposes only. The Federal Reserve Banks are subject to Board oversight and managed by boards of directors chosen by the Board of Governors and member banks, which include all national banks and State banks that choose to become members. The budgets of the regional Banks are subject to approval by the Board of Governors and are not included in the Budget *Appendix*.

***Indirect macroeconomic effects of Federal activity.***—Government activity has many effects on the Nation's economy that extend beyond the amounts recorded in the budget. Government expenditures, taxation, tax expenditures, regulation, and trade policy can all affect the allocation of resources among private uses and income distribution among individuals. These effects, resulting indirectly from Federal activity, are generally not part of the budget, but the most important of these are discussed in this volume. For example, the effects of the American Recovery and Reinvestment Act of 2009 (ARRA) among other things, are discussed in Chapter 2 of this volume, "Economic Assumptions and Interactions with the Budget."

[13] Under section 415(b) of the Amtrak Reform and Accountability Act of 1997, (49 U.S.C. 24304 and note), Amtrak was required to redeem all of its outstanding common stock. Once all outstanding common stock is redeemed, Amtrak will be wholly-owned by the Government and, at that point, its non-budgetary status may need to be reassessed.

[14] The most recent Regulatory Plan and introduction to the Unified Agenda issued by the General Services Administration's Regulatory Information Service Center are available on-line at *www.reginfo.gov* and at *www.gpoaccess.gov*.

[15] See 12 U.S.C. 225a.

[16] See 15 U.S.C. 3101 et seq.

[17] See section 1011 of Public Law 111-203 (12 U.S.C. 5491), (2010). The CFPB is an executive agency, led by a director appointed by the President and reliant on Federal funding, that serves the governmental function of regulating Federal consumer financial laws. Accordingly, it is included in the Budget.

# 11. BUDGET PROCESS

Since taking office, the Administration has sought to present budget figures that accurately reflect the present and future course of the Nation's finances, and to make improvements in budget process and enforcement. An honest and transparent accounting of the Nation's finances is critical to making decisions about key fiscal policies, and effective budget enforcement mechanisms are necessary to promote budget discipline.

This chapter begins with a description of three broad categories of budget reform. First, the chapter discusses proposals to improve budgeting and fiscal sustainability with respect to individual programs as well as across Government. These proposals include: legislation that exceeds the $1.2 trillion savings target for the Joint Select Committee on Deficit Reduction, repeals the Joint Committee reductions, and restores amounts that were reduced by the 2015 order; various initiatives to reduce improper payments; funding requested for disaster relief; reforms to reduce the Federal Government's real property inventory; limits on advance appropriations; structural reforms for surface transportation programs; maximum Pell Grant award funding; Postal Service reforms; and changes to the budgetary treatment of the International Monetary Fund quota. Second, the chapter describes the system of scoring under the Statutory Pay-As-You-Go Act of legislation affecting receipts and mandatory spending, and it summarizes the Administration's commitment to applying a PAYGO requirement to administrative actions affecting mandatory spending. Finally, the chapter presents proposals to revise the budget baseline and to improve budget presentation, for example, by including an allowance for the costs of potential future natural disasters and by projecting the costs of certain major tax and spending policies currently in effect, even though those policies are scheduled to expire within the budget window. This revised baseline better captures the likely future costs of operating the Federal Government. This section also discusses the use of debt net of financial assets, instead of debt held by the public, as a better measure of the Government's demand on private credit markets.

Taken together, these reforms generate a Budget that is more transparent, comprehensive, accurate, and realistic, and is thus a better guidepost for citizens and their representatives in making decisions about the key fiscal policy issues that face the Nation.[1]

[1] This chapter typically contains a report which fulfills the requirement under section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, for OMB to issue a sequestration preview report for each fiscal year. The OMB Sequestration Preview Report for FY 2015 will be made available on the OMB website.

## I. BUDGET REFORM PROPOSALS

### Joint Committee Enforcement

In August 2011, as part of the Budget Control Act (BCA), bipartisan majorities in both the House and Senate voted to establish the Joint Select Committee for Deficit Reduction to recommend legislation to achieve at least $1.2 trillion of deficit reduction over the period of fiscal years 2012 through 2021. The BCA included automatic reductions as a mechanism to compel the Congress to enact legislation to achieve this goal. On multiple occasions, the President has presented comprehensive plans to replace these reductions with a mix of specific spending cuts and revenue proposals. The failure of the Congress to enact such comprehensive deficit reduction legislation to achieve the $1.2 trillion goal has already triggered a sequestration of discretionary and mandatory spending in 2013, reductions to the discretionary caps and a mandatory sequestration in 2014, and a mandatory sequestration in 2015 which is scheduled to take effect as of October 1 based on the order released with the 2015 Budget.

To date, legislation has been enacted to partially address the reductions required in each of these years. The American Taxpayer Relief Act of 2012 reduced the sequestration required of 2013 discretionary and mandatory spending by $24 billion. In addition, the Bipartisan Budget Act of 2013 (BBA) decreased the reductions otherwise required to the 2014 discretionary caps by $44.8 billion and set new discretionary caps in 2015 that are approximately $18.5 billion more than CBO's estimate of the post-reduction discretionary spending limits in that year. The BBA also further specified that the discretionary spending limits would not be reduced in the sequestration preview report for fiscal year 2015. All of these revisions were paid for by enacting alternative deficit reduction.

In addition to the mandatory sequestration for 2015 noted above, damaging annual reductions of $109 billion will continue to be required for each of fiscal years 2016 through 2021, unless the Congress enacts balanced deficit reduction legislation that replaces and repeals the Joint Committee reductions. Also, since the BBA extended the sequestration of mandatory spending into 2022 and 2023 at the percentage reduction that would apply for 2021, additional cuts will be required in those years. The reductions to discretionary spending for fiscal years 2016 through 2021 are to be implemented in the sequestration preview report for each year by reducing the discretionary caps. The reductions to mandatory programs are to be implemented by a sequestration of non-exempt mandatory budgetary resources for fiscal years 2015 through 2023, which is triggered by the transmittal of the President's Budget and takes effect on the first day of the fiscal year. [2]

The President has emphasized that these reductions will be harmful to national security, domestic investments, and core Government functions. He has been clear that he is willing to make tough choices to reach an agreement to replace these reductions. The BBA took an important first step by replacing a portion of the Joint Committee reductions with sensible long-term reforms, including a number of reforms proposed in previous President's Budgets. The 2015 Budget builds upon that progress by including a separate, fully paid-for Opportunity, Growth, and Security Initiative, split evenly between defense and non-defense, to make additional discretionary investments in economic growth and security. The President will work with the Congress to enact deficit reduction sufficient to replace and repeal the Joint Committee reductions.

## Program Integrity Funding

Critical programs such as Social Security, Medicare, and Medicaid, should be run efficiently and effectively. Still, the Government made an estimated $106 billion in improper payments last year. Although this amount reflects an improvement in both the improper payment amount and the improper payment rate (which was 3.53 percent in 2013), this level of error is unaffordable and unacceptable. Therefore, the Administration proposes to make significant investments in activities to ensure that taxpayer dollars are spent correctly, by expanding oversight activities in the largest benefit programs and increasing investments in tax compliance and enforcement activities. In addition, the Administration supports a number of legislative and administrative reforms in order to reduce improper payments and improve debt collection. Many of these proposals will provide savings for the Government and taxpayers, and will support Government-wide efforts to improve the management and oversight of Federal resources.

The Administration supports efforts to provide Federal agencies with the necessary resources and incentives to prevent, reduce, or recover improper payments. With the enactment of the Improper Payments Elimination and Recovery Act of 2010 (P.L. 111-204) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (P.L. 112-248), and the release of three Presidential directives on improper payments under this Administration, agencies are well positioned to utilize these new tools and techniques to prevent, reduce, and recover improper payments. The Administration will continue to identify areas—in addition to those outlined in the Budget—where it can work with the Congress to further improve agency efforts.

***Administrative Funding for Program Integrity.***— There is compelling evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment. For every $1 spent by the Social Security Administration (SSA) on a disability review, $9 is saved in avoided benefit payments. Similarly, for every additional $1 spent on Health Care Fraud and Abuse Control (HCFAC) program integrity efforts, CMS actuaries conservatively estimate approximately $1.50 is saved or averted, and the Internal Revenue Service (IRS) enforcement activities recoup roughly $6 for every $1 spent.

***Enacted Adjustments Pursuant to BBEDCA Converted to Mandatory Funding.***—BBEDCA, as amended, recognized that a multi-year strategy of agencies focusing attention and resources on reducing the rate of improper payments, commensurate with the large and growing costs of the programs administered by that agency, is a laudable goal. To support that goal, BBEDCA, as amended, provided for adjustments to the discretionary spending limits for additional funding for specific program integrity activities at SSA to reduce improper payments in the Social Security program and in the Medicare and Medicaid programs. These adjustments are increases in the discretionary caps on budget authority through 2021 and are made only if appropriations bills increase funding for the specified program integrity purposes above specified base levels. This budget mechanism was intended to ensure that the additional funding did not supplant other Federal spending on these activities and that such spending was not diverted to other purposes.

Despite enactment of these multi-year discretionary cap adjustments, annual appropriations bills have not always provided the full amount of program integrity funding authorized in BBEDCA, as amended. The Consolidated Appropriations Act, 2014 (P.L. 113-76) fully funded the adjustment to the discretionary spending limit for SSA for the first time since the cap adjustment was available in 2012, but the adjustment for HCFAC for the Medicare and Medicaid programs has never been appropriated. Tens of billions of dollars in deficit savings over the next ten years from curtailing improper payments will not be realized if the administrative expenses for program integrity envisioned by BBEDCA, as amended, are not provided in each year. To ensure these important program integrity investments are made, the Budget is proposing to repeal the discretionary cap adjustments beginning in 2016 for SSA and 2015 for HCFAC and instead provide a dedicated, dependable source of mandatory funding that will ensure SSA, the Department of Health and Human Services (HHS) and the Department of Justice (DOJ) have the resources that they need to conduct necessary program integrity activities and make certain that the right people receive the right payment for the right reason at the right time. Providing mandatory funding to SSA and HCFAC will also avoid delays in annual appropriations that make it difficult for the agencies to execute their budget plans and achieve targeted results in each year.

Because the SSA adjustment was fully funded for 2014 and therefore may again be funded in 2015, both the base SSA program integrity funding ($273 million)

[2] Public Law 113-82, commonly referred to as the Military Retired Pay Restoration Act and signed into law on February 15, 2014, extended the sequestration of mandatory spending into 2024. The estimates in the 2015 Budget do not reflect the effects of this Act due to the late date of enactment.

and the SSA cap adjustment ($1,123 million) are proposed to be funded through discretionary appropriations in 2015. However, once that transition year has passed, to maximize the potential savings, the Budget proposes only mandatory funding for SSA program integrity starting in 2016. For HCFAC for 2015, the Budget proposes to provide the base funding that was provided in 2014 ($294 million for HHS and DOJ) through discretionary appropriations, plus an additional $25 million for the Centers for Medicare & Medicaid Services (CMS) to monitor and prevent fraud, waste, and abuse in the Health Insurance Marketplace. After 2015, no discretionary funding is being proposed for this purpose for HCFAC. In addition, the Budget proposes an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA, as amended, beginning in 2016 to offset the cost of shifting the base funding from discretionary to mandatory. This proposal, including the more stable mandatory program integrity funding, will produce new net deficit savings of almost $37.4 billion over 10 years.

***Social Security Administration Continuing Disability Reviews and Redeterminations of Eligibility.—***For the Social Security Administration, the Budget's proposed $1,396 million in discretionary funding in 2015 will allow SSA to conduct at least 888,000 Continuing Disability Reviews (CDRs) and at least 2.6 million Supplemental Security Income (SSI) redeterminations of eligibility. CDRs determine whether an individual continues to qualify for Disability Insurance (DI) or SSI. The mandatory funding provided for the SSA will enable the agency to work down a backlog of CDRs. As a result of the discretionary funding requested in 2015 and the increased mandatory funding requested in 2016 through 2024, SSA would recoup almost $48.2 billion in gross savings in the DI and SSI programs, with additional savings after the 10-year period, according to estimates of SSA's Office of the Actuary. Taking into account the $12.1 billion cost of the increased funding, this would produce new net deficit savings of $34.9 billion in the 10-year window, and additional savings in the out-years. These costs and savings are reflected in Table 11-1. The cost of shifting the current SSA base funding of $273 million from discretionary to mandatory in 2016 through 2024 is not reflected in the new net deficit savings because, as noted above, it is being offset with an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA, as amended if the mandatory funding proposal is enacted.

SSA is required by law to conduct CDRs for all beneficiaries who are receiving DI benefits, as well as all children under age 18 who are receiving SSI. SSI redeterminations are also required by law. However, the frequency of CDRs and redeterminations is constrained by the availability of funds to support these activities. As noted above, for 2014, the base amounts, as well as an additional $924 million discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA, as amended, were enacted in the annual appropriations bill. The mandatory savings from the base funding in every year and any enacted discretionary cap adjustment funding in 2014 are included in the BBEDCA baseline because the baseline assumes the likely frequency of program integrity activities, given the current likely funding levels. The Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the discretionary funding requested in 2015 and the increased mandatory funding requested in 2016 through 2024.

As stated above, the return on investment (ROI) for CDRs is approximately 9 to 1 in lifetime program savings. The ROI for redeterminations is approximately 4 to 1. As in prior years, the ROI for CDRs is calculated based on the direct marginal costs of processing additional CDRs. In 2014, the ROI for CDRs is temporarily lower because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities. The Budget proposes to return to funding only the direct marginal costs of CDRs in 2015 and beyond. The savings from one year of program integrity activities are realized over multiple years because some CDRs find that beneficiaries have medically improved and are capable of working, which may mean that they are no longer eligible to receive DI or SSI benefits. Redeterminations focus on an individual's eligibility for the means-tested SSI program and generally result in a revision of the individual's benefit level. However, the schedule of savings resulting from redeterminations will be different for the base funding and the cap adjustment funding in 2015 or increased mandatory funding in 2016 through 2024. This is because redeterminations of eligibility can uncover underpayment errors as well as overpayment errors. SSI recipients are more likely to initiate a redetermination of eligibility if they believe there are underpayments, and these recipient-initiated redeterminations are included in the base. The estimated lifetime savings per dollar spent on CDRs and redeterminations reflects an interaction with a provision in the Affordable Care Act (ACA) that allows States to expand Medicaid coverage beginning January 2014 for individuals under age 65 with income less than 133 percent of poverty. As a result of this provision, many SSI beneficiaries, who would otherwise lose Medicaid coverage due to a CDR or redetermination, would continue to be covered. In addition, some of these individuals will be eligible for the Medicaid ACA enhanced Federal matching rate, resulting in higher Federal Medicaid costs.

***Health Care Fraud and Abuse Program.—***The proposed additional mandatory funding of $378 million (in addition to the discretionary base funding of $294 million and $25 million for program integrity activities in the Health Insurance Marketplace) for HCFAC activities in 2015 is designed to reduce the Medicare improper payment rate, support the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative, and to reduce Medicaid improper payment rates. The increased mandatory funding will also allow CMS to deploy innovative efforts that focus on improving the analysis and application of data, including state-of-the-art predictive modeling capabilities, in order to prevent potentially wasteful, abusive, or fraudulent payments before they occur. The funding is to be allocated among CMS, the Health and

**Table 11–1. PROPOSAL TO SHIFT TO MANDATORY FUNDING FOR ENACTED CAP ADJUSTMENTS, INCLUDING MANDATORY SAVINGS**
(Outlays in millions of dollars)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2015 - 2024 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **SSA Program Integrity** | | | | | | | | | | | |
| Discretionary Costs[1] | 1,123 | | | | | | | | | | 1,123 |
| Mandatory Costs[1] | | 1,477 | 1,527 | 1,437 | 1,352 | 1,270 | 1,270 | 1,270 | 1,270 | 1,270 | 12,143 |
| Mandatory Savings[2] | –214 | –2,164 | –3,436 | –4,079 | –4,939 | –5,569 | –6,159 | –6,977 | –7,221 | –7,393 | –48,151 |
| Net Savings | 909 | –687 | –1,909 | –2,642 | –3,587 | –4,299 | –4,889 | –5,707 | –5,951 | –6,123 | –34,885 |
| **Health Care Fraud and Abuse Control Program** | | | | | | | | | | | |
| Mandatory Costs[1] | 378 | 412 | 431 | 451 | 471 | 492 | 513 | 535 | 558 | 582 | 4,827 |
| Mandatory Savings[3] | –552 | –610 | –646 | –684 | –725 | –758 | –791 | –825 | –861 | –899 | –7,351 |
| Net Savings | –174 | –198 | –215 | –233 | –254 | –266 | –278 | –290 | –303 | –317 | –2,524 |

[1] The cost of shifting the current SSA and HCFAC base funding ($273 million and $294 million, respectively) from discretionary to mandatory is not reflected above in 2016 through 2024 because it is being offset with an annual reduction to the discretionary spending limits in section 251(c) of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended. For 2014, for both SSA and HCFAC, the base amounts were enacted in the annual appropriations bill and, for SSA, an additional $924 million was provided as a discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA. For 2015, the Budget continues to request the SSA and HCFAC base funding through discretionary appropriations. In addition, the Budget also requests that a $1,123 million discretionary cap adjustment for SSA is funded through discretionary appropriations in 2015. The mandatory savings from the base funding in every year and any enacted discretionary cap adjustment funding continues to be included in the BBEDCA baseline.

[2] This is based on SSA's Office of the Actuary estimates of savings. In the first year, there is no net savings. This is due to the fact that redeterminations of eligibility can uncover underpayment errors as well as overpayment errors and corrections for underpayments are realized more quickly than corrections for overpayments. The 10-year savings from the 2015 cap adjustment costs that will continue to be funded as discretionary are estimated to be $8.6 billion.

[3] These savings are based on estimates from the HHS Office of the Actuary for return on investment (ROI) from program integrity activities.

Human Services Office of Inspector General, and DOJ. Over 2015 through 2024, as reflected in Table 11-1, this $4,827 million increase in net HCFAC mandatory funding will generate approximately $7,351 million in savings to Medicare and Medicaid, for new net deficit reduction of $2,524 million over the 10-year period, reflecting prevention and recoupment of improper payments made to providers, as well as recoveries related to civil and criminal penalties. The cost of shifting the current HCFAC base funding of $294 million from discretionary to mandatory in 2016 through 2024 is not reflected in the new net deficit savings because, as noted above, it is being offset with an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA, as amended. A portion of the base amounts for 2014 was enacted in the annual appropriations bill. The mandatory savings from that partial base funding, assuming that amount is to continue in future years, are included in the BBEDCA baseline. Since the 2014 appropriations bill did not fully fund the base or the cap adjustment for 2014 for HCFAC, $450 million in deficit savings that was assumed to result from the enactment of the cap adjustments in BBEDCA will not materialize.

***Proposed Adjustments to BBEDCA Discretionary Spending Limits.—***The Administration also proposes to amend BBEDCA to enact adjustments to the discretionary spending limits at the IRS and Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) for tax code enforcement and the Department of Labor (DOL) to reduce improper payments in the Unemployment Insurance (UI) program. As shown in Table 11-2, the proposed adjustments are estimated to result in more than $53.1 billion in lower spending and additional tax revenue over the next 10 years, with further savings after the 10-year period. Both the base level of funding and the additional funding that would trigger cap adjustments are also listed in Table 1-2.

***Internal Revenue Service and Treasury's Alcohol and Tobacco Tax and Trade Bureau.—***For the IRS and TTB, the base funds current tax administration activities, including all tax enforcement and compliance program activities, in the Enforcement and Operations Support accounts at IRS and the Salaries and Expenses account at TTB. The additional $480 million cap adjustment funds new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's and TTB's overall tax enforcement program. As a result of base tax enforcement and compliance activities, the Government will collect roughly $55 billion in 2015 in direct enforcement revenue. The IRS estimates that the proposed new 2015 enforcement initiatives will yield an additional $370 million in revenue from the work done in 2015. Further, once the new staff are trained and become fully operational in 2017, the extra revenue brought in by the work done in each year will rise to more than $2.1 billion, or roughly $6 in additional revenue for every $1 in IRS expenses. New investments are also proposed beyond 2015, with cap adjustments in fiscal years 2016 through 2019 that include about $350 million in new revenue-producing enforcement initiatives each year. The activities and new initiatives funded out of the cap adjustments through 2024 will generate $52 billion in additional revenue over 10 years and will cost $17.1billion for an estimated net savings of $34.9 billion. Notably, the ROI is likely understated because it only includes amounts received; it does not reflect the effect enhanced enforcement has on deterring non-compliance. This indirect deterrence helps to ensure the continued payment of well over $2 trillion in taxes paid each year without direct enforcement measures.

***Unemployment Insurance.***—The Budget proposes a series of cap adjustments for the Department of Labor's (DOL) Unemployment Insurance (UI) State administrative grants program to reduce UI improper payments, a top management challenge identified by GAO and DOL's Inspector General. The proposal would expand what is now an $80 million Reemployment and Eligibility Assessment (REA) initiative, begun in 2005 to finance in-person interviews at American Job Centers (also known as "One-Stop Career Centers"), to assess UI beneficiaries' need for job finding services and their continued eligibility for benefits. Research, including a random-assignment evaluation, shows that a combination of eligibility reviews and reemployment services reduces the time on UI, increases earnings, and reduces improper payments to claimants who are not eligible for benefits. Based on this research, the Budget proposes to expand the REA initiative to include reemployment services, which may include the development of reemployment and work search plans, provision of skills assessments, career counseling, job matching and referrals, and referrals to training as appropriate. The focus will be on providing this assistance to the top quarter of UI claimants identified as most likely to exhaust their UI benefits as well as all newly separated veterans claiming unemployment compensation for ex-servicemembers. The proposed expansion to the base effort to $133 million, if continued through 2024, would result in savings in UI benefit payments of an estimated $3,738 million. These benefit savings would allow States to reduce their UI taxes by $981 million (net of the income tax offset), reducing the burden on employers. Because most unemployment claims are now filed by telephone or online, in-person assessments conducted in the Centers can help determine the continued eligibility for benefits and the adequacy of work search, verify the identity of beneficiaries where there is suspicion of possible identity theft, and provide a referral to reemployment assistance for those who need additional help. The benefit savings from this initiative are short-term because the maximum UI benefit period is limited, typically 26 weeks for regular

**Table 11–2. PROPOSALS FOR DISCRETIONARY PROGRAM INTEGRITY BASE FUNDING AND CAP ADJUSTMENTS, INCLUDING MANDATORY AND RECEIPTS SAVINGS**

(Budget authority in millions of dollars)

| | 2015 Proposed | 2016 Proposed | 2017 Proposed | 2018 Proposed | 2019 Proposed | 2020 Proposed | 2021 Proposed | 2022 Proposed | 2023 Proposed | 2024 Proposed | 2015–2024 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **IRS Tax Enforcement** | | | | | | | | | | | |
| **Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:** | | | | | | | | | | | |
| Enforcement Base. | 9,445 | 9,745 | 10,038 | 10,341 | 10,652 | 10,972 | 11,303 | 11,641 | 11,992 | 12,353 | |
| **Cap Adjustments:** | | | | | | | | | | | |
| BA | 480 | 857 | 1,222 | 1,604 | 1,997 | 2,066 | 2,116 | 2,179 | 2,243 | 2,310 | 17,074 |
| Outlays | 451 | 834 | 1,200 | 1,581 | 1,973 | 2,062 | 2,113 | 2,175 | 2,239 | 2,306 | 16,935 |
| **Receipt Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:**[1] | | | | | | | | | | | |
| Enforcement Base[2] | –55,000 | –55,000 | –55,000 | –55,000 | –55,000 | –55,000 | –55,000 | –55,000 | –55,000 | –55,000 | –550,000 |
| Cap Adjustment[3] | –370 | –1,265 | –2,584 | –3,978 | –5,426 | –6,620 | –7,431 | –7,850 | –8,137 | –8,343 | –52,004 |
| **Unemployment Insurance Improper Payments** | | | | | | | | | | | |
| **Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:** | | | | | | | | | | | |
| Enforcement Base. | 133 | 133 | 133 | 133 | 133 | 133 | 133 | 133 | 133 | 133 | |
| **Cap Adjustments:** | | | | | | | | | | | |
| BA | 25 | 30 | 35 | 40 | 45 | 50 | 55 | 60 | 65 | 70 | 475 |
| Outlays | 25 | 30 | 35 | 40 | 45 | 50 | 55 | 60 | 65 | 70 | 475 |
| **Mandatory Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:**[4] | | | | | | | | | | | |
| Enforcement Base | –146 | –353 | –363 | –374 | –385 | –395 | –411 | –427 | –437 | –447 | –3,738 |
| Cap Adjustment. | –27 | –80 | –96 | –113 | –130 | –149 | –170 | –192 | –213 | –236 | –1,406 |

[1] Savings for IRS are revenue increases rather than spending reductions. They are shown as negatives for consistency in presentation.

[2] No official estimate for FY 2015 enforcement revenue has been produced, so this figure is an approximation and included only for illustrative purposes.

[3] The Internal Revenue Service (IRS) cap adjustment funds cost increases for existing enforcement initiatives and activities and new initiatives. The IRS enforcement program helps maintain the more than $2 trillion in taxes paid each year without direct enforcement measures. The cost increases will help maintain the base revenue while generating additional revenue through targeted program investments. The activities and new initiatives funded out of the cap adjustment will yield $52 billion in savings over ten years. Aside from direct enforcement revenue, the deterrence impact of these activities suggests the potential for even greater savings.

[4] The maximum UI benefit period is typically 26 weeks unless temporary extended benefits programs are in effect. As a result, preventing an ineligible individual from collecting UI benefits would save at most a half year of benefits in the absence of extended benefits. The savings estimates are based on regular UI benefits and spread over two years, reflecting the fact that reemployment and eligibility assessments conducted late in the year affect individuals whose benefits would have continued into the subsequent fiscal year. As a result of the benefit savings, many States will be able to reduce their unemployment taxes. The estimated revenue loss from the enforcement base is $981 million, net of the income tax offset. The estimated revenue loss from the cap adjustment is $320 million, net of the offset.

State UI programs, although durations are currently longer in response to the elevated unemployment rate. The proposed cap adjustments would begin at $25 million in 2015 and total $475 million through 2024, providing total gross outlay savings estimated at $1.406 billion. These outlay savings from the cap adjustments would result in some States reducing their UI taxes, which would result in an estimated revenue loss of $320 million (net of the income tax offset). Net savings for the proposal, including the cost of the cap adjustments, the mandatory outlay savings, and the revenue declines, totals $611 million.

***Partnership Fund for Program Integrity Innovation.***—Funded from fiscal year 2010 through 2013, the Partnership Fund invested over $29 million in eleven pilot projects, which are estimated to lead to total savings of up to $200 million or more annually if the pilots are taken to scale. As evaluations are completed and results finalized, OMB will work with Federal agencies, States and local governments, and other stakeholders to disseminate lessons learned and apply the tools and methods tested more broadly across programs and levels of government.

Early pilots results include:

- The Department of Labor conducted a pilot simulation with three States to test how access to data from financial institutions could help to detect overpayments in the Unemployment Insurance program. For the 15-month period, the pilot analysis found approximately $65 million in potential overpayments due to 27,562 potential instances of unreported earnings that the State may not have found otherwise using currently available data. DOL is now partnering with additional States to test the pilot approach in actual practice;
- CMS and States worked to better identify provider fraud and share fraud information through automated risk assessment tools using integrated data from State Medicaid programs and the Federal Medicare program, finding that collaborative data analysis could help to identify potential fraud. While this approach holds promise, the pilot has not yet been able to quantify potential savings; and
- CMS, working with States, issued a series of challenges to produce a prototype shared services solution for States to verify Medicaid provider eligibility. The prototype solution is now being tested in a live environment by one State. CMS estimated the cost to procure the crowd-sourced solution as approximately one-fifth the cost of traditional procurement methods, exclusive of ongoing support costs.

***Mandatory Program Integrity Initiatives.***—Table 11-3 lays out the mandatory and receipt savings from other program integrity initiatives that are included in the 2015 Budget, beyond the expansion in resources resulting from the increases in administrative funding discussed above. These savings total almost $8.4 billion over ten years. Almost 30 percent of these savings would be scored as PAYGO offsets because the legislation would authorize agencies to use new methods to reduce overpayments and combat fraud. These mandatory proposals to reduce improper payments and ensure agencies recover debt owed to the Federal Government reflect the importance of these issues to the Administration. Through these and other initiatives outlined in the Budget, the Administration can improve management efforts across the Federal Government.

***Cut Waste, Fraud, and Abuse in Medicare and Medicaid.***—The Budget includes a robust package of Medicare and Medicaid program integrity proposals to help prevent fraud and abuse before they occur; detect fraud and abuse as early as possible; more comprehensively enforce penalties and other sanctions when fraud and abuse occur; provide greater flexibility to the Secretary of Health and Human Services to implement program integrity activities that allow for efficient use of resources and achieve high returns-on-investment; and promote integrity in Federal-State financing. For example, the Budget proposes to authorize civil monetary penalties or other intermediate sanctions for providers who do not update enrollment records, permit exclusion of individuals affiliated with entities sanctioned for fraudulent or other prohibited action from Federal health care programs, and strengthens Medicaid and the Children's Health Insurance Program (CHIP) by providing tools to States, Territories, and the Federal Government to fight fraud, waste, and abuse. Together, the CMS program integrity authority would save approximately $1.1 billion over 10 years.

***Unemployment Insurance Integrity.***—The Budget includes two proposals that would implement improved integrity in the Unemployment Insurance program and would result in $232 million in PAYGO savings over ten years and allow States to reduce their unemployment taxes by $58 million:

- ***Electronic Transmission of Unemployment Compensation Information.***—The Budget proposes to require all State agencies to use a system designated by the Secretary of Labor to obtain information from employers relating to UI claims, which could be the existing State Information Data Exchange System (SIDES) or else a successor system. The Department of Labor's SIDES system is designed to help employers more quickly provide to States the information necessary to determine a claimant's eligibility by providing a secure electronic data exchange between States and employers or their third party administrators. SIDES is currently used by about 35 States. The improvements in speed and accuracy resulting from use of such a system will help avoid overpayments or underpayments, and provide for more efficient and effective administration of the UI program.
- ***Cross-Match Prisoner Data to Reduce Improper Payments.***—The Budget proposes to expand State Unemployment Insurance agency use of the Social Security Administration's (SSA's) Prisoner Update Processing System (PUPS), which contains Federal,

State, and local prisoner data. Recent legislation has expanded the information the prisons are required to report to SSA to include release dates, making the system more valuable to users. The PUPS data will help prevent prisoners from illegally receiving unemployment compensation.

***Improve Treasury Debt Collection.—***The Budget includes four proposals that would increase collections of delinquent debt:

- ***Increase levy authority for payments to Medicare providers with delinquent tax debt.—***The Budget proposes a change to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Medicare providers. Through the Federal Payment Levy Program, Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the Medicare Improvements for Patients and Providers Act of 2008, Medicare provider and supplier payments are included in the Federal Payment Levy Program, whereby Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider in order to collect delinquent tax debt. The Budget proposal will allow Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes. This proposal would result in PAYGO savings of $743 million over ten years.
- ***Provide authority to contact delinquent debtors via their cell phones.—***The Budget proposes to clarify that the use of automatic dialing systems and prerecorded voice messages is allowed when contacting wireless phones in the collection of debt owed to or granted by the United States. In this time of fiscal constraint, the Administration believes that the Federal Government should ensure that all debt owed to the United States is collected as quickly and efficiently as possible and this provision could result in millions of defaulted debt being collected. While protections against abuse and harassment are appropriate, changing technology should not absolve these citizens from paying back the debt they owe their fellow citizens. The proposal would also allow the Federal Communications Commission to implement rules to protect consumers from being harassed and contacted unreasonably. This proposal would result in PAYGO savings of $120 million over 10 years.
- ***Authorize Treasury to locate and recover assets of the United States and to retain a portion of amounts collected to pay for the cost of recovery.—***States and other entities hold assets in the name of the United States or in the name of departments, agencies and other subdivisions of the Federal Government. Many agencies are not recovering these assets due to lack of expertise and funding. Under current authority, Treasury collects delinquent debts owed to the United States and retains a portion of collections, which is the sole source of funding for its debt collection operations. While unclaimed Federal assets are generally not considered to be delinquent debts, Treasury's debt collection operations personnel have the skills and training to recover these assets. The Budget proposes to authorize Treasury to use its resources to recover assets of the United States. This proposal would result in PAYGO savings of $30 million over 10 years.
- ***Increase delinquent Federal non-tax debt collections. Authorize administrative bank garnishment for non-tax debts of commercial entities.—***Allow Federal agencies to collect non-tax debt by garnishing the bank and other financial institution accounts of delinquent commercial debtors without a court order and after providing full administrative due process. The Budget proposes to direct the Secretary of the Treasury to issue government-wide regulations implementing the authority of bank garnishment for non-tax debts of commercial entities. Bank garnishment orders under this authority would be subject to Treasury's rule (31 CFR 212) protecting exempt benefit payments from garnishment. To reach income of commercial entities and other non-wage income and funds available to commercial debtors owing delinquent non-tax obligations to the United States, this proposal would authorize agencies to issue garnishment orders to financial institutions without a court order. Agencies would be required to provide debtors with appropriate administrative due process and other protections to ensure that debtors have had the full opportunity to contest the debts and/or enter into repayment agreements to avoid issuance of an order. The Internal Revenue Service currently has similar authority to collect Federal tax debts. The Debt Collection Improvement Act of 1996 (DCIA) authorized Federal agencies to collect delinquent non-tax debt by garnishing the wages of debtors without the need to first obtain a court order. Since July 2001, the U.S. Department of the Treasury's Bureau of the Fiscal Service has collected $131.6 million in garnished wages (as of April 30, 2013) on behalf of Federal agencies. This proposal would result in estimated savings of $320 million over 10 years in commercial debts.

***Improve Collection of Pension Information from States and Localities.—***The Budget re-proposes legislation that would improve reporting for non-covered pensions by including up to $70 million for administrative expenses, $50 million of which would be available to the States, to develop a mechanism so that the Social Security Administration could enforce the offsets for non-covered employment, Windfall Elimination Provision (WEP), and Government Pension Offset (GPO). The proposal would require State and local governments to provide information on their noncovered pension payments to SSA so that the agency can apply the WEP and GPO adjustments. Under current law, the WEP and GPO adjustments are

**Table 11–3. MANDATORY AND RECEIPT SAVINGS FROM OTHER PROGRAM INTEGRITY INITIATIVES**

(Receipts and outlays in millions of dollars)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 10-year total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Department of Health and Human Services:** | | | | | | | | | | | |
| Cut Waste, Fraud, and Abuse in Medicare and Medicaid [1] | 6 | –43 | –63 | –72 | –92 | –91 | –91 | –100 | –99 | –99 | –744 |
| Cut Waste, Fraud, and Abuse in Medicare and Medicaid (non-PAYGO)[1] | –6 | –15 | –23 | –34 | –43 | –43 | –44 | –45 | –47 | –48 | –348 |
| **Department of Labor:** | | | | | | | | | | | |
| Implement Unemployment Insurance Integrity | –5 | –9 | –14 | –15 | –15 | –16 | –16 | –17 | –18 | –18 | –143 |
| Implement Unemployment Insurance Integrity (non-PAYGO receipt effect) | ......... | ......... | ......... | 2 | 3 | 5 | 5 | 7 | 7 | 8 | 37 |
| Cross-Match Prisoner Data for Improper Payments | –4 | –8 | –9 | –9 | –9 | –9 | –10 | –10 | –10 | –11 | –89 |
| Cross-Match Prisoner Data for Improper Payments (non-PAYGO receipt effect) | ......... | ......... | ......... | 1 | 2 | 2 | 3 | 4 | 4 | 5 | 21 |
| **Department of the Treasury:** | | | | | | | | | | | |
| Increase levy authority for payments to Medicare providers with delinquent tax debt (receipt effect) | –50 | –71 | –74 | –76 | –76 | –77 | –78 | –80 | –80 | –81 | –743 |
| Provide authority to contact delinquent debtors via their cell phones. | –12 | –12 | –12 | –12 | –12 | –12 | –12 | –12 | –12 | –12 | –120 |
| Authorize Treasury to locate and recover assets of the United States and to retain a portion of amounts collected to pay for the cost of recovery | –3 | –3 | –3 | –3 | –3 | –3 | –3 | –3 | –3 | –3 | –30 |
| Increase delinquent Federal non-tax debt collection | –32 | –32 | –32 | –32 | –32 | –32 | –32 | –32 | –32 | –32 | –320 |
| **Social Security Administration:** | | | | | | | | | | | |
| Improve Collection of Pension Information from States and Localities | 70 | ......... | ......... | ......... | ......... | ......... | ......... | ......... | ......... | ......... | 70 |
| Improve Collection of Pension Information from States and Localities (non-PAYGO) | –52 | 28 | 24 | –307 | –675 | –907 | –986 | –935 | –924 | –905 | –5,639 |
| Reconcile OPM/SSA retroactive disability payments | 6 | ......... | ......... | ......... | ......... | ......... | ......... | ......... | ......... | ......... | 6 |
| **Office of Personnel Management:** | | | | | | | | | | | |
| Reconcile OPM/SSA retroactive disability payments | ......... | ......... | –38 | –41 | –41 | –41 | –41 | –41 | –41 | –41 | –325 |
| **Total, Mandatory and Receipt Savings** | **–82** | **–165** | **–244** | **–598** | **–993** | **–1,224** | **–1,305** | **–1,264** | **–1,255** | **–1,237** | **–8,367** |
| *PAYGO Savings* | *–24* | *–178* | *–245* | *–260* | *–280* | *–281* | *–283* | *–295* | *–295* | *–297* | *–2,438* |
| *Non-PAYGO Savings* | *–58* | *13* | *1* | *–338* | *–713* | *–943* | *–1,022* | *–969* | *–960* | *–940* | *–5,929* |

[1] Savings estimates may not include all interactions.

dependent on self-reported pension data and cannot be independently verified. This proposal would result in savings in the Old-Age, Survivors, and Disability Insurance program of more than $5.6 billion over 10 years, which would be scored as non-PAYGO savings because the program is off-budget.

***Coordination of Disability Benefit Payments between the Office of Personnel Management (OPM) and SSA through Automation.—*** The Budget proposes legislation to provide SSA with authority to automate coordination of disability benefit payments with OPM, which would substantially reduce OPM overpayments. This proposal would result in PAYGO savings of $325 million over 10 years. In addition, SSA is provided $6 million in 2015 to administer the coordination effort.

### Other Program Integrity Initiatives.

***Leveraging Technology to Reduce Improper Payments.—***Under this Administration, the Federal Government has focused on increased use of technology to address improper payments. First, under EO 13520, work groups were created to analyze the role that cutting-edge forensic technologies could play in identifying and preventing fraud and other improper payments, as well as efforts that could be undertaken to improve data sharing between agencies. Second, the 2012 Budget requested, and the Consolidated Appropriations Act, 2012 appropriated $10 million to support expansion of the "Do Not Pay" list—created by a Presidential memorandum issued June 18, 2010—and to add forensic fraud detection capabilities to the basic "Do Not Pay" portal. Specifically, the funding helped to expand the number of databases and infrastructure of the "Do Not Pay" list, to procure the detection technology and hire staff to support an operations center to analyze fraud patterns utilizing public and private-sector information, and to refer potential issues to agency management and the relevant agency Inspector General. Third, to enhance data sharing, the President issued a memorandum that directed that a single portal be established through which agencies could check multiple eligibility databases before making an award or payment, and in November 2010, OMB released a memorandum that encouraged agencies to share high-value data that can be used to support important Administration initiatives, including preventing improper payments.

When the President signed into law the Improper Payments and Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248), he reinforced the Administration's "Do Not Pay Initiative" already underway. Spearheaded by the Department of the Treasury, the Do Not Pay system contains an online portal that enables Federal Government officials to access information from multiple data sources. In addition, the enactment of the Bipartisan Budget Act of 2013 (P.L. 113-67) expanded the Do Not Pay initiative to include the information provided to the Prisoner Updates Processing System (PUPS) to prevent improper payment of Federal funds to incarcerated individuals. Do Not Pay will also incorporate other agency initiatives and activities that best promote program integrity based on program authorities, needs, and benefits to the taxpayer. As of June 1, 2013, agencies have been checking all payments and awards through a Do Not Pay working system as appropriate.

***Use of the Death Master File to Prevent Federal Improper Payments***.—The Administration is continuing to pursue opportunities to improve information sharing by developing or enhancing policy guidance, ensuring privacy protection, and developing legislative proposals to leverage available information and technology in determining benefit eligibility and other opportunities to prevent improper payments. In particular, on August 16, 2013, OMB issued Memorandum M-13-20, Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative, which updated guidance for Federal agencies, and enabled Treasury to publish a System of Records Notification, in accordance with the Privacy Act of 1974, as amended, for the Do Not Pay system.

The Budget proposes to further reduce improper payments by improved sharing and use of death data by government agencies. The proposal provides the Treasury Do Not Pay system access to the Social Security Administration full Death Master File database, which includes any information received from a State or any other source on reports of the deceased to prevent, identify, or recover all improper payments.

***Social Security Workers' Compensation Enforcement Provision.***—The Budget reproposes a proposal from the 2012 and 2013 Budgets to improve the collection of data on the receipt of Workers' Compensation benefits. Similar to WEP/GPO (see description in the mandatory program integrity initiatives section above), this information is self-reported to SSA and is used to offset benefit amounts in the Social Security Disability Insurance and Supplemental Security Income programs. This proposal would develop a process to collect this information in a timely manner from States and private insurers to correctly offset Disability Insurance benefits and reduce SSI payments. The proposal includes $10 million to help fund States' implementation costs and would reduce program overpayments and underpayments.

***Apply the Treasury Offset Program (TOP) to Retroactive Social Security Disability Insurance (DI) Payments.***—The Budget includes an administrative proposal to apply TOP to retroactive DI payments, consistent with existing offset rules. This action will provide increased debt collections while still providing beneficiaries with a base level of income support, generating savings assumed in the baseline of $900 million over 10 years. Currently TOP is applied to ongoing DI monthly benefits but not to retroactive DI payments.

***Reduce Costs for States Collecting Delinquent Income Tax Obligations.***—Under current law, the Bureau of the Fiscal Service may offset Federal tax refunds to collect delinquent State income tax obligations only after the State sends the delinquent debtor a notice by certified mail. The statutory notice requirements for Federal tax refund offset for all other types of debts, including Federal non-tax, child support, and State unemployment insurance compensation debts, are silent as to the notice delivery method. Federal tax refund offset regulations for all debts other than state income tax obligations require Federal and State creditor agencies to send notices by regular first class mail. Similarly, notice requirements for other debt collection actions, including administrative wage garnishment, do not require delivery by certified mail. This proposal would allow the Fiscal Service to amend its regulations to permit States to send notices for State income tax obligations by first class mail, saving States certified mail costs and standardizing notice procedures across debt types. While no Federal savings would be realized from this proposal, States would save an estimated $143 million over 10 years.

***Using Rigorous Evidence to Develop Cost Estimates.***—OMB works with Federal agencies and CBO to develop PAYGO estimates for mandatory programs. OMB has issued guidance to agencies for scoring legislation under the Statutory Pay-As-You-Go Act of 2010. This guidance states that agencies must score the effects of program legislation on other programs if the programs are linked by statute. (For example, effects on Medicaid spending that are due to statutory linkages in eligibility for Supplemental Security Income benefits must be scored.) In addition, even when programs are not linked by statute, agencies may score effects on other programs if those effects are significant and well documented. Specifically, the guidance states: "Under certain circumstances, estimates may also include effects in programs not linked by statute where such effects are significant and well documented. For example, such effects may be estimated where rigorous experimental research or past program experience has established a high probability that changes in eligibility or terms of one program will have significant effects on participation in another program."

Rigorous evidence can help policy makers identify policies that reduce government spending overall. Because PAYGO accounts for long-term mandatory savings, it creates an incentive to invest in relatively cost-effective programs. Discretionary programs can save money too, but discretionary scoring typically does not capture these savings. For example, research shows investments in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) reduce Medicaid costs for the mother and child. Although the interventions can reduce Federal costs, the appropriations bills are scored with the discretionary costs but are not credited with the savings in mandatory spending. As discussed earlier in this chapter, one exception to this is the program integrity cap adjustments, which allow the appropriators to provide money above the discretionary caps for activities that have been shown to generate cost savings. OMB would like to work with the Congress and CBO to develop options to provide similar incentives to use rigorous evidence to reward discretionary program investments in interventions that reduce government spending in other areas. In addition to promoting better use of limited discretionary funding, such incentives would also stimulate better data collection and evaluation about the impacts of Federal spending.

### Disaster Relief Funding

Section 251(b)(2)(D) of BBEDCA, as amended, includes a provision to adjust the discretionary caps for appropriations that the Congress designates as being for disaster relief in statute. The law allows for the discretionary cap to be increased by no more than the average funding provided for disaster relief over the previous ten years, excluding the highest and lowest years. The ceiling for each year's adjustment (as determined by the ten year average) is then increased by the unused amount of the prior year's ceiling (excluding the portion of the prior year's ceiling that was itself due to any unused amount from the year before). Disaster relief is defined as activities carried out pursuant to a determination under section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5122(2)) for major disasters declared by the President. The request amends BBEDCA to extend the discretionary cap adjustment for disaster funding through 2024.

As required by law, OMB included in its Sequestration Update Report for FY 2014 a preview estimate of the 2014 adjustment for disaster relief. The ceiling for the disaster relief adjustment in 2014 was calculated to be $12,143 million. Exactly $5,626 million was included for 2014 for the Federal Emergency Management Agency's (FEMA's) Disaster Relief Fund (DRF) in the Consolidated Appropriations Act, 2014 (P.L. 113-76). OMB must include in its Sequestration Update Report for FY 2015 a preview estimate of the ceiling on the adjustment for disaster relief funding for fiscal year 2015. This estimate will contain an average funding calculation that incorporates seven years (2005 through 2011) using the definition of disaster relief from OMB's September 1, 2011 report and three years using the funding the Congress designated in 2012 through 2014 for disaster relief pursuant to BBEDCA, as amended, excluding the highest and lowest years. The amounts enacted as appropriations for disaster relief in 2014 are $6,517 million below the preview adjustment estimate of $12,143 million. If no further appropriations are enacted in 2014 that are designated as disaster relief, OMB will add the $6,517 million underage to OMB's preview estimate of the 2015 adjustment in its August 2014 Sequestration Update Report for FY 2015.

At this time, the Administration is requesting $6,593 million in funding in two accounts to be designated for disaster relief by the Congress: more than $6.4 billion in FEMA's DRF to cover the costs of Presidentially-declared major disasters, including identified costs for previously declared catastrophic events (defined by FEMA as events with expected costs that total more than $500 million) and the predictable annual cost of non-catastrophic events expected to obligate in 2015, and $155 million in the Small Business Administration's Disaster Loans Program Account for administrative expenses. For these two programs, the Budget requests funding for both known needs based on expected costs of prior declared disasters and the typical average expenditures in these programs. This is consistent with past practice of requesting and funding these as part of regular appropriations bills. Also consistent with past practice, the 2015 request level does not seek to pre-fund anticipated needs in other programs arising out of disasters that have yet to occur, nor does the Budget seek funding for potential catastrophic needs. As additional information about the need to fund prior or future disasters becomes available, additional requests, in the form of either 2014 supplemental appropriations (designated as either disaster relief or emergency requirements pursuant to BBEDCA, as amended) or budget amendments to the Budget, may be transmitted.

Under the principles outlined above, since the Administration does not have the adequate information about known or estimated needs that is necessary to state the total amount that will be requested in future years to be designated by the Congress for disaster relief, the Budget does not explicitly request to use the BBEDCA disaster designation in any year after the budget year. Instead, a placeholder for disaster relief is included in both the budget year, to capture unanticipated disasters, and in each of the outyears. See the discussion of this placeholder allowance later in this chapter in Section III (Improved Definition of Baseline) under the heading titled "Adjustments for Emergency and Disaster Costs".

### Proposed Adjustment to the Discretionary Spending Limits for Wildfire Suppression Operations at the Departments of Agriculture and the Interior

On December 19, 2013, Senator Ron Wyden and Senator Mike Crapo introduced the Wildfire Disaster Funding Act of 2013 (S. 1875). On February 5, 2014 Representative Mike Simpson and Representative Kurt Schrader introduced a companion bill in the House (H.R. 3992), with Representative Peter Defazio and Representative Raul Labrador as cosponsors. This legislation amends section 251(b)(2) of BBEDCA to add an adjustment to the discretionary spending limits for wildfire suppression operations. The adjustment allows for an increase in the discretionary caps for each of fiscal years 2014 through 2021 of up to $2.7 billion if appropriations bills provide funding for wildfire suppression operations at specified base levels. The $2.7 billion permissible adjustment is a ceiling, rather than a target. It is intended to give flexibility to respond to severe, complex, and threatening fires or a severe fire season that is not captured by the historical averages. In addition, it does not increase overall discretionary spending, since it would reduce the ceiling for the existing disaster relief cap adjustment by an equivalent amount as is provided for wildfire suppression operations.

The base levels are defined in the legislation as 70 percent of the average costs for wildfire suppression operations over the previous 10 years. These base levels ensure that the cap adjustment would only be used for the most severe fire activity since it is 1 percent of fires that cause 30 percent of costs. Only extreme fires that require emergency response or are near urban areas or activities during abnormally active fire seasons including large fires that require emergency response, which rightly should be considered disasters, would be permitted to be funded through the adjustment to the discretionary spending limits.

Wildfire suppression operations are defined by the legislation as the emergency and unpredictable aspects of wildland firefighting including support, response, and emergency stabilization activities, other emergency management activities, and funds necessary to repay any transfers needed for those costs. This means that related activities, such as fire preparedness, must continue to be funded from base appropriations and are not considered when determining if the cap adjustment is triggered.

As described above, the legislation does not allow for an increase in total discretionary spending. Rather, by its design, total funding for disasters is not expected to increase above currently estimated levels because the bill allocates funding for wildfire suppression operations from within the existing disaster relief funding cap adjustment described under the previous heading. Specifically, the ceiling for the disaster relief adjustment would be reduced by the amount provided for wildfire suppression operations under the cap adjustment for the preceding fiscal year.

The two introduced Wildfire Disaster Funding Acts attempt to create a more responsible way to budget for wildfire suppression operations that allows for improved agency planning and management. The reality is that the Government has historically - and will in the future - fully fund wildfire suppression operations. It is inefficient and ineffective to provide those resources on an ad hoc basis and to raid other critical land management operations to pay for suppression operation needs. The practice of doing so in prior years led to destabilizing transfers from other accounts, and ultimately to underinvesting in other areas that are critical to long-term forest health and resilience. That is why the Administration is including a wildfire suppression operations cap adjustment as a proposal in this Budget.

The Budget assumes that the cap adjustment will begin in 2015 and will remain in effect through 2024. The only significant departure from the two introduced Wildfire Disaster Funding Acts is that the Budget proposes to phase in the size of the cap adjustment, beginning with a maximum permissible adjustment of $1.4 billion in 2015 that increases slowly to $2.7 billion by 2021 and remains at that level thereafter. At this time, the Administration is requesting to fund only $1.2 billion through the wildfire suppression operations cap adjustment in 2015 ($954 million in the Department of Agriculture and $240 million in the Department of the Interior). If the cap adjustment were to be enacted additional requests, in the form of amendments to the Budget, might be transmitted as additional information about the severity of the fire season becomes known.

**Civilian Property Realignment**

The Federal Government owns and leases over 1.1 million individual properties. Within this large inventory are significant opportunities to be more efficient, reduce holdings, and save money. There are hundreds of underperforming properties that could be consolidated or sold, thereby eliminating ongoing Federal maintenance costs and reducing substantial energy consumption. However, progress is often blocked for different reasons: the variety of stakeholders; the numerous government processes that extend the timeline for disposing a property; and the financial disincentives for agencies to dispose of property, where they have no ability to recoup the significant upfront cost of preparing properties for sale.

This proposal would create an independent Civilian Property Realignment Board of private and public sector leaders to overcome the obstacles to reducing the Federal real estate inventory through sales and consolidations. The Board would forward to the Congress bundled recommendations of properties or actions to better align the Federal Government's real property inventory with our core missions and programs. The Board would have to submit bundled recommendations to the Congress to sell unneeded high-value assets and consolidate other assets in the real estate inventory. Unless the Congress disapproves the package as a whole, the Board's recommendations would become effective.

Under the proposal, agencies would use streamlined authorities to dispose of property. The Board would utilize a revolving fund, supported by a portion of real estate sales, to assist agencies in implementing further consolidations and sales to further reduce operating costs. In creating its recommendations, the Board would have to balance a variety of factors, including economic development opportunities, community interests, and homelessness assistance, to direct properties toward their highest and best use. The Board's actions would result in reduced operating costs and at least $2 billion in net proceeds directed to the Treasury General Fund for deficit reduction.

**Limit on Discretionary Advance Appropriations**

An advance appropriation first becomes available for obligation one or more fiscal years beyond the year for which the appropriations act is passed. Budget authority is recorded in the year the funds become available for obligation, not in the year the appropriation is enacted.

There are legitimate policy reasons to use advance appropriations to fund programs. For example, funding for the Corporation for Public Broadcasting is customarily appropriated two years in advance. This gives the beneficiaries of this funding time to plan their broadcasting budgets before the broadcast season starts.

However, advance appropriations can also be used in situations that lack a programmatic justification, as a gimmick to make room for expanded funding within the discretionary spending limits on budget authority for a given year under BBEDCA, as amended. For example, some education grants are forward funded (available beginning July 1 of the fiscal year) to provide certainty of funding for an entire school year, since school years straddle Federal fiscal years. This funding is recorded in the budget year because the funding is first legally available in that fiscal year. However, more than $22.6 billion of this funding is advance appropriated (available beginning three months later, on October 1) rather than forward funded. Prior Congresses increased advance appropriations and decreased the amounts of forward funding as a gimmick to free up room in the budget year without affecting the total amount available for a coming school year. This gimmick works because the advance appropriation is not recorded in the budget year but rather the following fiscal year. But it works only in the year in which funds are switched from forward funding to advance appropriations; that is, it works only in years in which the amounts of advance appropriations for such “straddle” programs are increased.

To curtail this gimmick, which allows over-budget funding in the budget year and exerts pressure for increased funding in future years by committing up-front a portion of the total budget authority limits under the discretionary caps in BBEDCA, as amended, in those years, congressional budget resolutions since the 2001 resolution have set limits on the amount of advance appropriations. When the congressional limit equals the amount that had been advance appropriated in the most recent appropriations bill, there is no additional room to switch forward funding to advance appropriations, and so no room for this particular gimmick to operate in that year’s budget.

The Budget includes $28,839 million in advance appropriations for 2016 and freezes them at this level in subsequent years. (One exception is the elimination of 2017 through 2024 advances for the Department of Labor’s dislocated worker program, because the Budget proposes a New Career Pathways program that would replace it.) In this way, the Budget does not employ this potential gimmick. Moreover, the Administration supports limiting advance appropriations to the proposed level for 2015, similar to the limits enacted as sections 112 and 115(c) of the Bipartisan Budget Act of 2013 (P.L. 113-67) for the Senate and the House, respectively. Those limits apply only to the accounts explicitly specified in a statement submitted to the Congressional Record by the Chairman of the Committee on the Budget in each House.

In order to account for the Administration’s Elementary and Secondary Education Act reauthorization proposal, the Budget eliminates the $1,681 million advance appropriation that was previously in the School Improvement account (renamed the Education Improvement account) and replaces it with corresponding increases to advance appropriations in the accounts for Education for the Disadvantaged ($841 million, renamed Accelerating Achievement and Ensuring Equity) and Special Education ($841 million). Total advance appropriations for 2014 in the Department of Education remain unchanged at $22,596 million.

In addition, the Administration would allow advance appropriations for the Corporation for Public Broadcasting, which is typically enacted two years in advance, and for Veterans Medical Care, as is required by the Veterans Health Care Budget Reform and Transparency Act (P.L. 111-81). The advance appropriations funding level for the veterans medical care accounts (comprising Medical Services, Medical Support and Compliance, and Medical Facilities) is largely determined by the Enrollee Health Care Projection Model of the Department of Veterans Affairs. This model covers more than 90 percent of the total medical care funding requirement. The remaining funding requirement is estimated based on other models and assumptions for services such as readjustment counseling and initiatives. The Department of Veterans Affairs has included detailed information in its Congressional Budget Justifications about the overall 2016 VA medical care funding requirement.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2013 or for which the Budget requests advance appropriations for 2016 and beyond, please refer to the Advance Appropriations chapter in the Appendix.

### Budgetary Treatment of Surface Transportation Infrastructure Funding

***Overview***.—Currently, surface transportation programs financed from the Highway Trust Fund (HTF) are treated as hybrids: contract authority is classified as mandatory, while outlays are classified as discretionary. Broadly speaking, this framework evolved as a mechanism to ensure that collections into the HTF (e.g., motor fuel taxes) were used to pay only for programs that benefit surface transportation users, and that funding for those programs would generally be commensurate with collections. However, HTF collections are no longer adequate to support current law spending levels.

The National Commission on Fiscal Responsibility and Reform (the “Fiscal Commission”) recommended changing the scorekeeping treatment of surface transportation programs to close loopholes in the present system.

This hybrid treatment results in less accountability and discipline for transportation spending and allows for budget gimmicks to circumvent budget limits to increase spending. The Commission plan reclassifies spending from the Transportation Trust Fund to make both contract authority and outlays mandatory.

Specifically, rather than skirting the two mechanisms intended to control spending, caps on discretionary budget authority and PAYGO, the Fiscal Commission’s recommendation would establish surface transportation programs as subject to PAYGO.

The 2015 Budget includes structural reforms to surface transportation programs that mirror the recommendation of the Fiscal Commission. These reforms help ensure that when crafting a surface transportation plan, the President and the Congress will work together to ensure that funding increases do not increase the deficit.

The Budget uses transition revenue from pro-growth business tax reform to offset the cost of President’s four-year surface transportation proposal beyond what the current funding mechanism can cover. Beyond the reauthorization window (2015-2018), the Budget assumes that spending returns to baseline levels based on what was enacted in 2014, and a return to the structural deficit between baseline trust fund spending and baseline trust fund receipts. This reflects the assumption that while the Administration has identified a revenue source that will sustain baseline spending levels and programmatic increases proposed in the pending reauthorization, the offset does not offer a permanent solution. The proposal fills the gap between baseline receipts and baseline spending for the four-year period of the reauthorization, while also funding outlays associated with programmatic increases during the four-year reauthorization. Policy-makers will need to work together to develop other fiscally responsible solutions beyond the four-year reauthorization period.

The Budget also includes a surface transportation reauthorization proposal that would broaden the scope of programs included under the Trust Fund umbrella: the HTF is renamed the Transportation Trust Fund (TTF), and supports additional highway safety and transit programs, as well as passenger rail programs and multimodal programs administered by the Department of Transportation. The mechanics of the 2015 proposal are described in greater detail below. Generally speaking:

- Hybrid treatment is ended; all TTF accounts have mandatory contract authority and mandatory outlays.
- For the sake of comparability, the Budget reclassifies current law spending for all TTF activities as mandatory. This is intended to allow policy makers to: 1) transparently calculate the difference between baseline levels and the President's proposal, and 2) account for that difference under a unified, existing scorekeeping regime, PAYGO.
- Rescissions of contract authority in appropriations acts would be scored as CHIMPs (discretionary changes that would be rebased as mandatory subsequent to enactment, following long-standing scorekeeping conventions).

As proposed by the Administration, this unified scoring framework does not radically alter traditional roles and jurisdictional relationships as they are conceived of under current law and scorekeeping practice. Authorizing committees would be scored with the full cost of contract authority and outlays associated with their proposal; discretionary outlays would no longer be a central feature of the scorekeeping system. However, under the proposal, the Appropriations Committees would continue to set obligation limitations that are legally binding. In addition, the Appropriations Committees would liquidate contract authority. As under current law, multi-year authorizing bills would set initial expectations for spending. The new scorekeeping regime would fully reflect the cost of that legislation in terms of both budget authority and outlays.

While the Administration envisions both types of committees playing important roles, the central innovation of the proposed scorekeeping regime is that it would require all stakeholders to identify offsets for new spending during the authorization process. A scorekeeping regime that closes loopholes in current practice and forecloses options that are not fiscally responsible is necessary for budget discipline and to drive policy makers towards consensus.

The proposal for surface transportation and the corresponding structural changes differ from the proposal presented in the 2014 Budget in several substantive ways. First, whereas the 2014 Budget proposed budget year spending levels for highway, transit, and highway safety programs in line with the most recently enacted authorizing legislation (MAP-21), the 2015 Budget presents the Administration's proposal for a four-year $302 billion reauthorization of transportation programs that would substantially increase average annual spending over the four years compared to MAP-21. The Budget separately requests a multi-sector infrastructure bank that is not incorporated into the surface transportation framework. Finally, as discussed above, the Administration proposes to pay for the reauthorization proposal by using transition revenue from pro-growth business tax reform.

As a matter of policy, the Administration believes that the proceeds from existing Highway Trust Fund excise taxes should be dedicated solely to the highway and transit accounts; no existing excise taxes would be diverted to rail or other activities. Rather, under the Administration's proposal, transition revenue from business tax reform would offset the General Fund transfers that have been used in recent years to compensate for the projected shortfall in the Highway and Mass Transit accounts, cover increased funding for highways and mass transit, and finance passenger rail and multimodal activities.

This budget process reform is only one element of the Administration's comprehensive plan to rebuild the Nation's transportation infrastructure. The *Budget* and *Appendix* volumes discuss the broader policy in more detail.

***Account-by-Account Budgetary Treatment*.**—The Budget proposes the enactment of contract authority for the Transportation Trust Fund for each year, 2015-2018, totaling $302 billion over four years. The contract authority is to be enacted by the reauthorization bill and, as under current law, will be classified as mandatory.

Under the budget, outlays flowing from that contract authority will also be treated as mandatory. The same treatment is applied to outlays flowing from prior obligations of the Highway Trust Fund, which will now be attributed to the Transportation Trust Fund; this is a departure from current law. As is the case for all other programs, this aligns outlays with budget authority. By placing outlays on the PAYGO scorecard, it gives real scoring effect to funding increases for surface transportation programs.

For all of the resources in the surface transportation reauthorization proposal, the Budget proposes that the reauthorization contain annual obligation limits at the same level as the contract authority, and also that annual appropriations bills include obligation limits at those levels. The obligation limits enacted by the appropriators enable the Administration and Congress to review TTF policies and resource levels on an annual basis, but under a framework that will continue to give external stakeholders a high level of certainty regarding the multi-year resource trajectory for highways, transit, passenger rail, and multimodal activities.

The Budget modifies individual accounts to conform to the proposed budgetary treatment in all years. Specifically:

- For accounts that are presently classified as having discretionary budget authority and outlays, but that the Administration proposes to incorporate into the TTF (for example, the Federal Transit Administration's Capital Investment Grants account), the Budget includes separate schedules that:
  - Show baseline budget authority and outlays as discretionary, consistent with current classifications.
  - Reclassify baseline budget authority and outlays as mandatory in all years, including 2013 and 2014, for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - Show adjustments (subject to PAYGO) to the reclassified mandatory amounts so that the proposal properly accounts for requested program growth in the new trust fund accounts.
- For accounts that are presently funded from the HTF and that the Administration proposes to incorporate into the TTF (for example, Federal-Aid Highways), the Budget includes separate schedules that:
  - Show baseline levels of mandatory contract authority and discretionary outlays resulting from obligation limitations contained in appropriations acts. Since under current law MAP-21 will expire September 30, 2014, the contract authority is frozen in all years subsequent to that date, consistent with current scorekeeping conventions.
  - Reclassify discretionary outlays from obligation limitations as mandatory outlays from mandatory contract authority for the 2014 estimate and create a new baseline of contract authority that is equal to the previous inflated discretionary baseline for obligation limitations.
  - Reclassify 2013 enacted budget authority and outlays as mandatory for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - Show proposed mandatory spending above or below the baseline as PAYGO costs or savings.
- For proposed new accounts supported by the TTF (for example, the Federal Railroad Administration's Rail Service Improvement Program account), the Budget includes a schedule that includes new mandatory contract authority and outlays requested to support those programs.

The discretionary accounts that are incorporated into the TTF construct are:

- Office of the Secretary, National Infrastructure Investments.
- Federal Railroad Administration (FRA): Operating Subsidy Grants to the National Railroad Passenger Corporation; Capital and Debt Service Grants to the National Railroad Passenger Corporation; Capital Assistance for High-Speed Rail Corridors.
- National Highway Traffic Safety Administration (NHTSA): Operations and Research.
- Federal Transit Administration (FTA): Administrative Expenses; Capital Investment Grants; Transit Research and Training; Public Transportation Emergency Relief.

Amounts in these accounts total $4.1 billion in discretionary budget authority for 2014. The baseline levels for these amounts are what constitute the discretionary cap adjustment noted in the OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2015. Note that in a number of cases, activities captured in these accounts are requested under a new account in the Administration's reauthorization proposal. For example, activities under the two existing Amtrak accounts are requested as part of the Federal Railroad Administration's new Current Passenger Rail Service account. In those instances, the PAYGO impact of the Administration's reauthorization proposal must be calculated at the aggregate level rather than the individual account level (i.e., the change between the reclassified baseline amounts in the existing General Fund accounts and the proposed levels in the successor account).

***Outyear Assumptions***.—Beyond the reauthorization proposal, the Budget assumes that contract authority will return to baseline levels, as calculated from 2014, for 2019 and thereafter. This reflects that while the Administration has identified savings to offset the presently-pending reauthorization, policy-makers will need to develop alternative fiscally responsible solutions for 2019 and beyond.

***Transportation Trust Fund Mechanics***.—As discussed earlier, the Budget proposes a successor to the Highway Trust Fund, the Transportation Trust Fund, containing four accounts:

- The Highway Account subsumes the highway and highway safety activities currently in the Highway Trust Fund plus the NHTSA Operations and Research account, currently a General Fund account.
- The Mass Transit Account subsumes the transit activities currently in the Highway Trust Fund plus four FTA accounts currently financed by the General Fund: Capital Investment Grants; Transit Research

and Training; Public Transportation Emergency Relief; and Administrative Expenses.

- The Rail Account focuses on developing high-performance rail and also subsumes activities currently financed from the General Fund: Capital Assistance for High-Speed Rail Corridors; Capital and Debt service grants to AMTRAK; and Operating Grants to AMTRAK.
- The Multimodal Account includes a multimodal, competitive program that the Department currently operates: National Infrastructure Investments (TIGER) grants.

The goal of a broader Trust Fund is to allow policy-makers to review surface transportation policy and spending in a more comprehensive way.

***Offsets.***—The 2015 Budget fully pays for the 2015-2018 reauthorization proposal by applying transition revenue from pro-growth business tax reform to cover outlays associated with: 1) new spending associated with the Administration's four-year surface transportation reauthorization proposal; and 2) shortfalls between revenue and spending that exist under current law for the same time period. As discussed above, the Budget proposes to make surface transportation spending subject to PAYGO rules, and specific savings are identified to cover the PAYGO costs.

Because the Budget retains the Trust Fund concept, fully-offset transfers from the General Fund to the TTF are reflected to maintain TTF solvency through the reauthorization period and to cover outlays generated from the four-year proposal but projected to occur beyond the reauthorization period. Offsets from business tax reform are only used to cover the structural deficit for four years and all new outlays associated with the reauthorization proposal for the 10-year window. Since the Administration's proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2014 and spending again outstrips revenue.

***Explanation of the Administration's Proposal and PAYGO Treatment***.—Table 11-4 details the Administration's surface transportation reauthorization proposal.

- Line one illustrates the proposed contract authority levels for accounts under the TTF, including accounts presently reflected as General Fund budget authority, HTF-funded accounts (hybrid treatment), and new activities. Line two illustrates outlay estimates associated with that contract authority, as well as prior-year outlays from the HTF.
- Line three illustrates the baseline level of budgetary resources for all activities proposed under the TTF (including enacted appropriations and programs authorized under MAP-21). For comparability, those budgetary resources that were previously classified as discretionary are displayed here as mandatory. Line four illustrates the outlay estimates associated with those budgetary resources, including prior year outlays from the HTF.
- Lines five and six calculate the mandatory budget authority and outlay changes—the increases over the baseline levels. As previously noted and indicated in this line, after this reauthorization period, spending falls back to baseline levels. Line six is the amount that would be subject to PAYGO.
- Line seven indicates the assumed deposits to the Transportation Trust Fund necessary to liquidate outlays. That figure is made up of two components: estimates associated with current law receipts (line eight)

**Table 11–4. FUNDING, SPENDING, REVENUES, AND DEPOSITS ASSOCIATED WITH THE TRANSPORTATION TRUST FUND**

(Dollars in billions)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 4-year | 10-year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Funding for the Transportation Trust Fund (Contract Authority) | 74 | 75 | 76 | 78 | 61 | 62 | 63 | 64 | 65 | 67 | 302 | 684 |
| 2. Estimated outlays | 59 | 66 | 70 | 73 | 72 | 68 | 67 | 66 | 66 | 66 | 268 | 674 |
| 3. Baseline funding (Contract Authority and Budget Authority) | 56 | 57 | 58 | 59 | 61 | 62 | 63 | 64 | 65 | 67 | 231 | 612 |
| 4. Estimated baseline outlays* | 55 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 229 | 603 |
| 5. Proposed funding increase | 18 | 18 | 18 | 18 | 0 | 0 | 0 | 0 | 0 | 0 | 72 | 72 |
| 6. Estimated outlay increase | 4 | 9 | 12 | 14 | 12 | 7 | 5 | 3 | 2 | 1 | 39 | 70 |
| 7. Deposits into the Transportation Trust Fund | 76 | 76 | 77 | 77 | 40 | 41 | 41 | 41 | 41 | 41 | 306 | 551 |
| 8. Highway Trust Fund revenues (at current rates) | 38 | 39 | 39 | 40 | 40 | 41 | 41 | 41 | 41 | 41 | 156 | 401 |
| 9. Corporate Tax Proposal Savings | 38 | 38 | 38 | 38 | ......... | ......... | ......... | ......... | ......... | ......... | 150 | 150 |
| 10. Transportation Trust Fund annual cash flow (net) | 17 | 10 | 6 | 4 | (32) | (28) | (26) | (25) | (25) | (25) | 37 | (123) |
| 11. Transportation Trust Fund end-of-year balances | 17 | 27 | 33 | 37 | 5 | (22) | (48) | (73) | (98) | (123) | 114 | (246) |

*Note that the FY15 proposal would incorporate into the Transportation Trust Fund all new spending from accounts that would previously have been considered discretionary (e.g. the Federal Transit Administration's Capital Investment Grants account), and future outlays from these accounts will now be paid from the Transportation Trust Fund.

to the Highway Trust Fund and offset transfers needed to maintain Trust Fund solvency during the four-year reauthorization and cover outlays from this reauthorization that are expected to occur after 2018 (line nine).

- Line ten illustrates the net cash flow to the TTF assumed in each year (revenues minus outlays).
- Line eleven illustrates the notional cash balances of the TTF over the ten-year period. As mentioned above, offsets from transition revenue from business tax reform only cover the structural deficit for four years and new outlays associated with the reauthorization proposal; since the Administration's proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2014 and structural deficits return.

In order to ensure the successful transition of these programs to a fiscally responsible framework, the Administration's proposal—or any proposal to make surface transportation programs subject to PAYGO—must consider two initial adjustments.

First, congressional scorekeeping must accommodate the initial shift from discretionary to mandatory outlays. As illustrated by line four, the activities that the administration proposes to incorporate in the TTF as mandatory outlays would generate discretionary outlays under current law totaling an estimated $229 billion over four years. If those outlays are reclassified, they should not be added to the PAYGO cost of any legislation by virtue of the fact that they are new to the mandatory side of the budget. Rather, the mandatory baseline should be adjusted to include those outlays that would occur under current law—as the 2015 Budget does—and calculate any changes from that baseline. Without this initial accommodation, scorekeeping rules would overstate the cost of legislation intended to reform the hybrid system.

Second, to reflect the true cost of fully funding the surface transportation program for the four-year reauthorization period, any offset should be required to cover: 1) the difference between current law revenues and baseline HTF outlays ($63 billion, including a $5 billion cash management cushion for the reauthorization period) to restore solvency to the existing HTF, 2) any reclassification of baseline activities currently financed by the General Fund ($16 billion in the Administration's proposal, of which $12 billion outlays over the first four years), and 3) all program increases relative to the baseline ($72 billion). While PAYGO rules only require an offset to spending above the BBEDCA baseline, the Administration believes that for both scoring purposes and Trust Fund solvency the offset should cover both proposed spending increases and the gap between baseline spending and current law revenue. As discussed earlier, the outyears beyond the reauthorization, 2019-2024, reflect lower surface transportation spending at baseline levels calculated from 2014 to illustrate that after the current reauthorization, the structural deficit returns and the Transportation Trust Fund faces insolvency. As a matter of policy, the Administration believes that the spending levels under its reauthorization proposal should be the starting point for subsequent authorizations, but policy makers will again have to confront the gap between spending and revenue.

**Pell Grants**

The Pell Grant program includes features that make it unlike other discretionary programs. In recent years, the program's costs have risen significantly, though demand has slowed since 2010. This section provides some background on the unique nature of the Pell Grant program and explains how the Budget accommodates these rising discretionary costs. A later section of this chapter discusses the treatment of Pell in the adjusted baseline.

Under current law, the Pell program has several notable features:

- The Pell program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, where the size of the individual award and the number of eligible applicants together determine the cost in any given year. Specifically, Pell Grant costs depend on the maximum award set in statute, the number of eligible applicants, and the award for which those applicants are eligible based on their needs and costs of attendance. The maximum Pell award for the academic year 2014-2015 is $5,730, of which $4,860 will be established in the annual appropriations act and the remaining $870 is provided automatically by the College Cost Reduction and Access Act (CCRAA), as amended.
- The cost of each Pell Grant is funded by discretionary budget authority provided in annual appropriations acts, along with mandatory budget authority provided not only by the CCRAA, as amended, and the BCA, but also by amendments to the Higher Education Act of 1965 contained in the 2011 and 2012 appropriations acts. There is no programmatic difference between the mandatory and discretionary funding.
- If valid applicants are more numerous than expected, or if these applicants are eligible for higher awards, the Pell Grant program will cost more than the appropriations provided, and vice versa. If the costs during one academic year are higher than expected, the Department of Education funds the extra costs with the subsequent year's appropriation.[3]
- To prevent deliberate underfunding of Pell costs, in 2006 the congressional and Executive Branch score-

[3] This ability to "borrow" from a subsequent appropriation is unique to the Pell program. It comes about for two reasons. First, like many education programs, Pell is "forward-funded"—the budget authority enacted in the fall of one year is intended for the subsequent academic year, which begins in the following July. Second, even though the amount of funding is predicated on the expected cost of Pell during one academic year, the money is made legally available for the full 24-month period covering the current fiscal year and the subsequent fiscal year. This means that, if the funding for an academic year proves inadequate, the following year's appropriation will legally be available to cover the funding shortage for the first academic year. The 2015 appropriation, for instance, will support the 2015-2016 academic year beginning in July 2015 but will become available in October 2014 and can therefore help cover any shortages that may arise in funding for the 2014-2015 academic year.

**Table 11–5. EFFECT OF STUDENT AID PROPOSALS ON DISCRETIONARY PELL FUNDING NEEDS**

(Dollars in Billions)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2015-2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Full Funding, Discretionary Pell | | 21.3 | 27.8 | 27.9 | 28.2 | 28.7 | 29.0 | 29.3 | 29.6 | 29.9 | 30.2 | |
| Mandatory Funding Previously Provided | | ......... | ......... | (1.6) | (1.4) | (1.4) | (1.4) | (1.1) | (1.1) | (1.1) | (1.1) | |
| Discretionary Need | 22.8 | 21.3 | 27.8 | 26.3 | 26.8 | 27.2 | 27.5 | 28.2 | 28.4 | 28.8 | 29.0 | |
| Fund Pell at 2015 Full Funding Estimate | 22.8 | 21.3 | 21.3 | 21.3 | 21.3 | 21.3 | 21.3 | 21.3 | 21.3 | 21.3 | 21.3 | |
| Discretionary Funding Gap | | ......... | (6.4) | (5.0) | (5.5) | (5.9) | (6.2) | (6.8) | (7.1) | (7.4) | (7.7) | (58.1) |
| Fund Pell at 2014 Enacted Level | | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | |
| Remaining Funding Gap | | 1.4 | (5.0) | (3.6) | (4.0) | (4.5) | (4.7) | (5.4) | (5.6) | (6.0) | (6.3) | (43.6) |
| Carry Forward 2015 BA Request to Help Fund 2016 | | (1.4) | 1.4 | ......... | ......... | ......... | ......... | ......... | ......... | ......... | ......... | |
| Remaining Funding Gap | | ......... | (3.5) | (3.6) | (4.0) | (4.5) | (4.7) | (5.4) | (5.6) | (6.0) | (6.3) | (43.6) |
| Enact Changes to Reduce Pell Program Costs | | (0.0) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | |
| Remaining Funding Gap | | (0.0) | (3.4) | (3.4) | (3.9) | (4.4) | (4.6) | (5.3) | (5.5) | (5.9) | (6.2) | (42.6) |
| Proposed Mandatory Funding in the Budget | | | 3.4 | 0.4 | ......... | ......... | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | |
| Remaining Funding Gap | | (0.0) | 0.0 | (3.0) | (3.9) | (4.4) | (4.0) | (4.7) | (4.9) | (5.2) | (5.5) | (35.5) |

keepers agreed to a special scorekeeping rule for Pell. Under this rule, the annual appropriations bill is charged with the full estimated cost of the Pell Grant program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years. This scorekeeping rule was adopted by the Congress as §406(b) of the Concurrent Resolution on the Budget for Fiscal Year 2006 (H. Con. Res. 95, 109th Congress).

Given the nature of the program, it is reasonable to consider Pell Grants an individual entitlement for purposes of budget analysis and enforcement, and in the 2010 and 2011 Budgets, the Administration requested that Pell Grants be converted into a mandatory program. The Congress has chosen to continue treating the portion funded in annual appropriations acts as discretionary, counting that budget authority for Pell Grants against the discretionary spending caps pursuant to section 251 of BBEDCA, as amended, and appropriations allocations established annually under §302 of the Congressional Budget Act. The Budget maintains this discretionary treatment.

The total cost of Pell Grants can fluctuate from year to year, even with no change in the maximum Pell Grant award. In addition, since 2009 the program has relied on temporary mandatory or emergency appropriations to fund the program well above the level that could have been provided by the regular discretionary appropriation. In 2016, those extra mandatory funds in large part run out, and the program faces a significant funding gap (see Table 11-4).

Administration policy is to fully fund the maximum award. The Budget provides sufficient resources to fully fund the 2015-2016 and 2016-2017 award years. The Budget provides $22.8 billion in discretionary budget authority in 2015, the same level of discretionary budget authority provided in 2014. Level-funding Pell in 2015 provides $1.4 billion more than is needed to fully fund the program in the 2015-16 award year, thanks to mandatory funding provided in prior legislation. This surplus budget authority serves as the first step in addressing the funding cliff in 2016. Cutting the budget authority in Pell to only the level needed to fund the program in 2015 would have a doubly detrimental impact on the 2016 cliff; it would reduce the budget authority carried forward from 2015, while simultaneously reducing the discretionary base funding level in the program.

In addition, this Budget makes a down payment toward addressing the long term Pell gap, financed by expanding and reforming the Perkins loan program, and by changes to Pell program rules to strengthen academic progress requirements to encourage students to complete their studies on time. The Pell program cost changes reduce future discretionary program costs by $0.9 billion over 10 years. Combined, the total mandatory budget authority and outlay savings from these reforms amount to a $6.6 billion, 10-year reduction. This savings allows $7.1 billion in budget authority to be appropriated as part of proposed authorizing legislation, with outlays of $6.6 billion during the budget window, toward paying for the discretionary portion of Pell. This is analogous to SAFRA's one-time $13.5 billion appropriation for discretionary Pell enacted in March 2010, which was financed by mandatory savings in student loan programs. With minimal adjustments to budget authority, the proposed Pell package could also be enacted as part of an appropriations act within Congressional scorekeeping rules, as was done in 2011 and 2012.

These important student aid reforms will provide full funding of Pell through the 2016-2017 award year. The Administration continues to believe that, in order to avoid the risk of deep and unnecessary cuts in the Pell Grant program in future years, the Congress should act sooner rather than later to address the Pell funding gap (currently estimated at $3.5 billion in 2016 if Pell is funded in 2015 at the same level of discretionary budget authority provided in 2014). While recent reductions in program costs have allowed mandatory budget authority provided in prior years to stretch further than expected, that extra budget authority will run out, and the program will face a permanent, structural shortfall in the near future. If the Congress does not act in fiscal year 2015 and instead waits until fiscal year 2016 to confront a 2016-2017 Pell Grant funding gap, and if the Congress again concludes – as it did in the 2012 appropriations process – that savings from the subsequent fiscal year cannot be used to cover a current-year problem, then reductions in Pell Grants may be required in 2016. The Administration is therefore committed to working with the Congress to achieve two goals: first, enacting in fiscal year 2015 the changes needed to fully fund Pell through the 2016-2017 award year; and second, in the near term, taking further steps to ensure the long term stability of this vital program.

### Postal Service Reforms

The Administration proposes reform of the Postal Service, necessitated by the serious financial condition of the Postal Service Fund. The policy proposals are discussed in the Postal Service and Office of Personnel Management sections of the *Appendix*.

As a matter of law, the Postal Service is designated as an off-budget independent establishment of the Executive Branch. This designation and budgetary treatment was most recently mandated in 1989, in part to reflect the policy agreement that the Postal Service should pay for its own costs through its own revenues and should operate more like an independent business entity. Statutory requirements on Postal Service expenses and restrictions that impede the Postal Service's ability to adapt to the ongoing evolution to paperless written communications have made this goal increasingly difficult to achieve. To address its current financial and structural challenges, the Administration proposes specific financial relief and reform measures to ensure that USPS can continue to operate in the short term and work toward viability in the long run. The Administration also proposes PAYGO scoring of Postal legislation on a unified budget basis to better reflect how and when such legislation will affect overall deficits and debt. That is, for the purposes of entering amounts on the statutory PAYGO scorecards, the applicable estimates should include both the off-budget and the on-budget costs and savings produced by the legislation. This scorekeeping change would be accomplished by a provision contained within Postal reform legislation.

### Budgetary Treatment of IMF Quota

To implement the terms of a 2010 agreement reached by G-20 Leaders and the International Monetary Fund (IMF) membership, the Budget proposes an increase to the U.S. quota and an equivalent rollback in U.S. participation in the New Arrangements to Borrow (NAB), with no net change in overall U.S. financial participation in the IMF. As explained below, the budgetary treatment of the U.S. participation in the IMF has changed over time to address jurisdictional and other political exigencies, most recently in 2009. The Administration would prefer to return to the pre-2009 budgetary treatment. However, recognizing the desire to show a financial cost for the IMF, as explained below, the Budget proposes to begin estimating the transactions on a present value basis.

***History of Budgetary Treatment.***—The United States participates in the IMF through a quota subscription, denominated in Special Drawing Rights (SDRs). Quotas are the main metric used by the Fund to assign voting shares, and to determine the amount of countries' international reserves counted towards the IMF's general resources and access to IMF financing. The United States also participates in the NAB, which is a standing arrangement among certain IMF members to supplement IMF quota resources if necessary to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of the system.

Beginning with the establishment of the IMF through 1980, IMF quota increases were treated as an exchange of monetary assets, similar to purchases of gold and to U.S. deposits in commercial bank accounts. When the United States transfers dollars or other reserve assets to the IMF under the U.S. quota subscription, the United States receives an equal, offsetting, and interest-bearing claim on the IMF, which is reflected as an increase in U.S. international monetary reserves. Because such transactions neither increase nor decrease the Government's assets or obligations, they were not recorded as budget authority or outlays in the Federal budget, a treatment that was affirmed by the President's Commission on Budget Concepts.[4]

As a result of a compromise reached in 1980 between the Administration and the Appropriations Committees in order to allow Appropriators to have jurisdiction over IMF quota increases, appropriations for IMF increases were recorded as budget authority, reflecting the appropriations language, but no outlays were recorded, reflecting the principle that these transactions are exchanges of equivalent monetary assets.[5] The same scoring was applied to the NAB when it was established in 1998. To accommodate the relatively large and infrequent appropriations for these purposes, the budget process allowed for adjustments to the limits on discretionary spending equal to these appropriations. For example, OMB's final sequestration report for 1993 included a $12.3 billion adjustment to the budget authority limit on discretionary international spending, which was a 57 percent increase to the $21.5 billion limit.[6] An amount this large clearly

[4] Report of the President's Commission on Budget Concepts, October 1967, p. 31. The Report notes that the IMF "is more like a bank in which funds are deposited and from which funds in the form of needed foreign currencies can be withdrawn."

[5] However, the budget records actual interest earnings received from the IMF and changes in the exchange rate of the dollar relative to Special Drawing Rights (in which the U.S. quota is denominated) as receipts or outlays.

[6] OMB Final Sequestration Report to the President and Congress for Fiscal Year 1993, Office of Management and Budget, October 23, 1992, p.3.

could not be accommodated within a limit on appropriations for annually-recurring expenses.

This scoring agreement remained in place until 2009, when the President's Budget proposed to return to the pre-1980 practice of recording IMF quota increases solely as a means of financing, with no impact on budget authority or outlays. The Congress did not accept the proposed scoring change. Instead, the Supplemental Appropriations Act of 2009 (Public Law 111-32), the Act directed that the 2009 appropriation to increase the U.S. participation in the IMF be scored in accordance with the Federal Credit Reform Act of 1990 (FCRA), including an additional adjustment to the discount rate for market risk.[7]

Given that the 2015 proposal rolls back part of the 2009 appropriation, it is understandable that the scoring might entail estimating subsidy costs. However, the application of FCRA with a market risk adjustment to the quota appropriation is not the best method for measuring cost. The U.S. reserve position in the IMF holds U.S. international monetary reserves that are readily available to meet a U.S. balance-of-payments financing need. Since its inception nearly seventy years ago, the IMF has never defaulted on any U.S. reserve claims on the IMF, even after the worst financial crisis since the Great Depression. The IMF is also recognized by its entire membership as the preferred creditor, with the unique ability to set conditions to assure repayment. U.S. reserve claims on the IMF are backed by the IMF's sound financial management and exceptionally strong balance sheet with reserves of $17 billion and 90 million ounces of gold worth more than $115 billion at market prices (as of February 10, 2014). In addition, the United States earns interest on its reserve position in the IMF.[8]

For all of these reasons, the risk of loss—and consequently the FCRA cost to Government—is negligible. Treating the U.S. quota or participation in the NAB as a loan is not likely to lead to better decisions by the President and Congress about the U.S. participation in the IMF or by program officials who manage the U.S. participation. Instead, FCRA imposes a number of operational requirements that are appropriate for managing a loan portfolio but have little relevance to the IMF quota, such as treating each cash deposit into the IMF as a separate risk category that must be estimated and tracked in perpetuity as long as the U.S. maintains its membership in the IMF.

Under FCRA, the cost of a credit program equals the present value cost to Government—setting loans and loan guarantees on a comparable basis to each other and other forms of spending, and thereby improving the allocation of resources. In contrast, fair value cost estimates reflect market pricing and include costs that are not relevant to taxpayers—overstating the cost to Government and introducing a bias relative to other forms of Federal spending. Beyond conceptual concerns, there are practical ones that call into question the treatment's usefulness in decision making. Estimating the adjustment to the interest rate requires making assumptions about how the market might price different characteristics. The fair value estimate is particularly distorting for IMF transactions, as there is no private market equivalent to inform or validate such adjustments—introducing more noise than valuable information to inform allocation decisions.

***Proposed Budgetary Treatment.***—The 2014 Budget proposed to return to the pre-2009 scoring arrangement, with budget authority reflecting the dollar amount of the change in the size of the U.S. quota to the IMF authorized by the Congress and zero outlays, which recognized that the transaction is an exchange of equivalent monetary assets. Recognizing the connection between the 2010 agreement and the FY 2009 Supplemental Appropriations Act and the desire to show budget authority and outlay costs relative to the scoring of that Act, the 2015 Budget proposes to estimate costs on a present value basis, using Treasury rates to discount the cash flows. This will result in the restatement of the transactions from the FY 2009 supplemental on this basis. The methods for estimating present value would be similar to the methods used under FCRA, but FCRA requirements for program and financing accounts, cohort-accounting, and reestimates would not apply. Under this proposal, the Budget would record budget authority and outlays equal to the estimated present value in the year that the U.S. contribution is enacted. Cash deposits into the IMF account at the Federal Reserve Bank of New York would be treated as a means of financing, similar to the treatment of other monetary assets. Interest earnings and realized gains and losses due to currency fluctuations would continue to be recorded in the budget on a cash basis, as they are for quota increases authorized prior to 2009. Revisions to the U.S. position at the NAB would receive the same treatment.

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[7] The fair value adjustment to the discount rate for market risks is intended to capture private sector pricing for compara-ble instruments.

[8] When a quota increase occurs, 75 percent is held in a Department of Treasury letter of credit (LOC) and the remaining 25 percent is deposited with the IMF in any combination of yen, euros, British pounds, U.S. dollars, or SDRs. The IMF credits the U.S. reserve tranche with an equivalent amount of SDRs. Funds held in the reserve tranche, which are part of the U.S. international reserves, earn interest paid to Treasury. The amount held in the reserve tranche relative to the LOC changes over time, rising as the IMF draws upon the U.S. quota temporarily for loans to other IMF members and falling as the IMF returns the funds.

## II. STATUTORY PAYGO

The Statutory Pay-As-You-Go Act of 2010 (PAYGO, or "the Act") was enacted on February 12, 2010. The Act strengthens the rules of budget discipline, which is a key priority for the Administration.

Drawing upon the version of the law enacted as part of the 1990 Budget Enforcement Act, the Act requires that, subject to specific exceptions, all legislation enacted during each session of the Congress changing taxes or mandatory expenditures and collections not increase projected deficits. Mandatory spending encompasses any spending except that controlled by the annual appropriations process.[9]

PAYGO established 5- and 10-year scorecards to record the budgetary effects of legislation; these scorecards are maintained by OMB and are published on the OMB web site (*http://www.whitehouse.gov/omb/paygo_default*). PAYGO also established special scorekeeping rules that affect whether all estimated budgetary effects of PAYGO bills are entered on the scorecards. Off-budget programs and provisions designated by the Congress in law as emergencies are not included. As originally in force, PAYGO also provided exemptions for the costs of extending certain policies that were already in place but that were scheduled to expire, such as the costs of extending tax cuts enacted in 2001 and 2003 and the costs of extending relief from scheduled reductions in Medicare physician payments. The authority for these exemptions, known as "current policy adjustments," expired as of December 31, 2011.

In addition to the exemptions in the PAYGO Act itself, in the last three sessions of Congress six laws affecting mandatory revenues or receipts have included provisions that directed that those laws be held off of the PAYGO scorecard. In the most recent Congressional session, for example, two pieces of legislation were enacted with such provisions: the Bipartisan Student Loan Certainty Act of 2013 (Public Law 113-28), and the Bipartisan Budget Act of 2013 and Pathway for SGR Reform Act of 2013 (Public Law 113-67).

The requirement of budget neutrality is enforced by an accompanying requirement of automatic across-the-board cuts in selected mandatory programs if enacted legislation taken as a whole does not meet that standard. If the Congress adjourns at the end of a session with net costs—that is, more costs than savings—in the budget-year column of either the 5- or 10-year scorecard, OMB is required to prepare, and the President is required to issue, a sequestration order implementing across-the-board cuts to non-exempt mandatory programs in an amount sufficient to offset the net costs on the PAYGO scorecards.

Exemptions from a PAYGO sequestration order generally include Social Security; most unemployment benefits; veterans' benefits; interest on the debt; Federal retirement; and the low-income entitlements such as Medicaid, the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), and Supplemental Security Income (SSI).[10] The major remaining mandatory programs, which are subject to sequestration, include most Medicare payments (limited to a maximum sequestration of 4 percent), farm price supports, vocational rehabilitation basic State grants, mineral leasing payments to States, the Social Services Block Grant, and many smaller programs. The list of exempt programs and the special sequestration rules for certain programs are contained in sections 255 and 256 of BBEDCA, as amended, and the exemptions and special rules generally apply to the following sequestrations: the sequestration pursuant to the PAYGO Act, the sequestration to eliminate excess spending above discretionary caps specified in section 251 of BBEDCA, as amended, and the sequestration currently required by the BCA as a result of the failure of the Joint Committee process.

Even though sequestration is calculated to fully offset any net costs on the PAYGO scorecard, it historically has acted as a successful deterrent to enacting legislation with net costs, and so has not been implemented. During the 1990s, under the first statutory PAYGO law, the sequestration rules and exemptions were almost identical to those in the current Act. The Congress complied with PAYGO throughout that decade. As a result, no PAYGO sequestration ever occurred.

As was the case during 1990s PAYGO, sequestration has not been required during the four Congressional sessions since the PAYGO Act reinstated the statutory PAYGO requirement. In each of those sessions, OMB's end-of-session PAYGO reports showed net savings in the budget year column of both the 5- and 10-year scorecards. In the most recent session, enacted legislation added net costs of $25 million in each year of the 5-year scorecard and $7 million in each year of the 10-year scorecard. However, balances of net savings from prior sessions of Congress were more than sufficient to offset these costs in the budget year column (2014) of each scorecard, so no sequestration was required. As of the end of the most recent session, both scorecards showed net savings in the 2015 column but the 5-year scorecard showed net costs of $1.0 billion in the 2016 column. Absent legislation to address these net costs, a PAYGO sequestration order would be required after the end of the 2015 Congressional session.[11]

### Administrative PAYGO

The Administration continues to review potential administrative actions by Executive Branch agencies affecting entitlement programs, as stated in a memorandum issued on May 23, 2005, by the Director of the Office of Management and Budget. This effectively establishes a PAYGO requirement for administrative actions involving mandatory spending programs. Exceptions to this requirement are only provided in extraordinary or compelling circumstances.[12]

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[9] Mandatory spending is termed direct spending in the PAYGO Act. The term mandatory encompasses entitlement programs, e.g., Medicare and Medicaid, and any funding not controlled by annual appropriations bills, such as the automatic availability of immigration examination fees to the Department of Homeland Security.

[10] Although many programs are exempt from sequestration, those programs are rarely exempt from PAYGO. For example, a bill to increase veterans' disability benefits or Medicaid benefits must be offset, even though a sequestration, if it is required, will not reduce those benefits.

[11] OMB's annual PAYGO reports and other explanatory material about the PAYGO Act are available at *www.whitehouse.gov/omb/paygo_default*.

[12] For a review of the application of Administrative PAYGO, see USDA's Application of Administrative PAYGO to Its Mandatory Spending Programs, GAO, October 31, 2011, GAO-11-921R.

## III. IMPROVED BASELINE AND BUDGET PRESENTATION

### Improved Definition of Baseline

The Administration suggests changes to the concepts used in formulating baseline projections to make the resulting product more useful to the public and to policymakers: extending certain major expiring tax and mandatory provisions, using a more meaningful method for reflecting future disaster costs, and reflecting the cost of fully funding the Pell Grant program. In addition, as explained above, the proposal to provide mandatory funding for a surface transportation and rail authorization proposal involves adjusting presentations, including baselines, so that corresponding funding and spending levels will be displayed on a comparable basis. The Administration also makes modifications to the baseline to reflect the discretionary caps on budget authority enacted in BBEDCA, as amended, including the cap adjustments permitted by the Act for Overseas Contingency Operations (OCO) inflated at the inflation rates in the baseline, and to reflect the Joint Committee enforcement procedures.

For years, the baseline used by the Congress has followed the definition contained in section 257 of BBEDCA, as amended. However, the BBEDCA baseline does not accurately reflect a continuation of current policy. In each of its Budgets, this Administration has built its budget proposals starting from a baseline that adjusts the BBEDCA baseline to better represent the thrust of current policy in certain major cases, and recommends that the Congress, the Congressional Budget Office, and the public use such a baseline in their own analyses as well. The deficit impacts of the adjustments to the BBEDCA baseline are summarized in Summary Table S-8 of the Budget. The adjustments are described below. Further detail about the adjusted baseline is provided in Chapter 25, "Current Services Estimates," in this volume.

While the adjusted baseline provides a more realistic basis for analyzing budgets, it is not intended to replace the BBEDCA baseline with respect to mandatory programs and revenues, either for legal purposes or to alter the application of the Statutory PAYGO Act of 2010. Specifically, the costs or savings from legislation affecting mandatory spending or revenues are measured relative to the BBEDCA baseline for purpose of entries on the PAYGO scorecards, discussed earlier in the chapter.[13]

***Adjustments to Reflect Certain Expiring Provisions Affecting Middle Class Tax Credits.***—In recent years, the Congress has repeatedly extended provisions of the tax code that have a large deficit impact or signaled its intention that a provision be extended when it enacted the provision for a limited number of years. The Administration's adjusted baseline assumes permanent extension of the following tax credits provided to individuals and families under the American Recovery and Reinvestment Act of 2009 (ARRA), which were extended through 2017 by the American Taxpayer Relief Act of 2012 (ATRA): increased refudability of the child tax credit, expansions in the earned income tax credit (EITC) for larger families and married taxpayers filing a joint return, and the American opportunity tax credit (AOTC).

***Adjustments to Reflect Medicare Physician Payment Relief.***—As with the tax provisions noted in the previous paragraph, in recent years, the Congress has repeatedly extended relief from scheduled reductions in Medicare physician payment rates that would otherwise take place under the Sustainable Growth Rate (SGR) formula. The Administration's adjusted baseline assumes permanent extension of current Medicare physician payment rates, as opposed to the large reductions in physician payment rates that would take place under current law. This adjustment is similar, although not identical, to a current policy adjustment previously provided under the PAYGO Act for SGR relief through 2014.

***Adjustments for Emergency and Disaster Costs.***—Because the BBEDCA baseline extends all appropriations already enacted for the year in progress, it can be subject to huge swings as a result of funding enacted as an emergency requirement or as disaster relief funding pursuant to the cap adjustments for these items permitted by section 251(b)(2) of BBEDCA, as amended. At times, the BBEDCA baseline could extend large one-time emergency or disaster appropriations for the next 10 years; at other times it might extend very little. The Administration's baseline includes adjustments to account for these swings. Specifically, the Administration's adjusted baseline removes the extension of enacted appropriations that were designated by the Congress in 2014 as disaster relief funding.

In addition, the Administration's adjusted baseline substitutes an allowance for disaster costs in the budget year and future fiscal years. This allowance reflects the fact that the disaster relief cap adjustment has already allowed funding for more than $5.6 billion in the BBEDCA-designated disasters in 2014, the Budget is specifically requesting almost $6.6 billion in 2015 for major disasters, and major natural or man-made disasters may occur in the near future and are likely to occur at some point in subsequent years. Obviously, both the timing and amounts are unknowable in advance. In addition to the inclusion of this entry in the baseline, the Administration includes the same allowance in its Budget.

The baseline and Budget figures are not a "reserve fund," nor are they a request for discretionary budget authority or congressional legislation of any kind. Instead, they are placeholders that represent a meaningful down payment on potential future disaster relief requirements that are not for known needs in the budget year. For more information, see the discussion of disaster relief funding earlier in this chapter in Section I (Budget Reform Proposals) under the heading titled "Disaster Relief Funding." Including a meaningful down payment for the future costs of potential disaster relief funding makes the budget totals more honest and realistic.

[13] The PAYGO Act originally provided for "current policy adjustments" that exempted the extension of certain tax and mandatory policies from being counted on the PAYGO scorecard. These adjustments applied only for legislation enacted through December 31, 2011, and are no longer in force.

***Adjustments to Reflect the Full Cost of Existing Pell Grants.***—As explained earlier in this chapter, the discretionary portion of the Pell Grant program has attributes that make it unique among programs classified as discretionary: it annually receives both mandatory and discretionary funding but the two types are indistinguishable in purpose or effect; the amount of discretionary funding has little or no effect on the size or cost of the program; and in recognition of this fact, congressional and Executive Branch scorekeepers agreed in 2006 to a special scorekeeping rule under which appropriations acts would be scored as providing the amount of discretionary budget authority estimated to fully fund the cost of Pell Grants in the budget year (which includes covering any shortfalls from prior years), even if the appropriations bill in question provides a lower amount.

Under these circumstances, the Administration believes that the BBEDCA baseline, which projects discretionary programs by adjusting current-year budget authority for inflation, is inconsistent with both the reality and the existing budgetary scorekeeping for Pell Grants. Since the special scorekeeping rule charges the Appropriations Committees with the full cost of providing Pell Grants to all eligible applicants plus covering any shortfalls from prior years, the baseline should do the same. This is especially the case because adhering to the BBEDCA baseline level of budget authority for Pell makes no difference to the actual size and cost of the program in the budget year; funding “cuts” or “increases” from such a baseline do not represent actual reductions or increases in costs, at least in the budget year. Therefore, the Administration adjusts the BBEDCA baseline to follow the existing scorekeeping rule, reflecting the full cost of funding the discretionary portion of Pell while covering any prior shortfalls.

As described earlier, an estimate of the full cost of Pell in any year depends in part on the size of the maximum award for that year. The current maximum award for the discretionary portion of Pell is $4,860 per student per year. The adjusted baseline assumes that award level will remain constant in nominal terms over the next ten years. The baseline projection of the discretionary portion of Pell therefore changes from year to year primarily because of estimated changes in the number of valid applicants. Changes in student income and level of tuition can also make a difference in the size of an individual student’s award and therefore the cost of the program.

The Administration believes that baselines prepared by the Congressional Budget Office and others would likewise be more realistic and better reflect the congressional scorekeeping rule if they projected the discretionary portion of Pell Grants in this way. This adjustment does not produce a net increase in the amount of discretionary budget authority in the baseline, because total discretionary budget authority remains limited by the BBEDCA caps.

***Adjustment to Reflect the Anticipated Postal Service Default on 2014 Retiree Health Benefit Prefunding.***—Under the Postal Accountability and Enhancement Act of 2006 (P.L. 109-435), the United States Postal Service (USPS) is required to make specified annual payments through 2016 to the Postal Service Retiree Health Benefits (RHB) Fund in the Office of Personnel Management. These payments are designed to prefund unfunded liabilities for health costs for future Postal retirees. Starting in 2017, the USPS’s remaining unfunded liability is amortized over a 40-year period. Because of its current financial challenges, the USPS defaulted on two statutory RHB payments due in 2012, totaling $11.1 billion, and defaulted on its $5.6 billion payment due September 30, 2013. While the BBEDCA baseline shows USPS making the payments due in 2014, 2015, and 2016 as required, the adjusted baseline only reflects a portion of these payment being made, given the likelihood of additional default. While defaulted payments remain as outstanding statutory liabilities, any default is factored into the 40-year amortization schedule mentioned above.

**Nuclear Waste Fund**

The Nuclear Waste Policy Act of 1982 (NWPA) established a broad policy framework for the permanent disposal of used nuclear fuel and high-level radioactive waste derived from nuclear power generation. The NWPA authorized the Government to enter into contracts with reactor operators—the generators and current owners of used nuclear fuel—providing that, in exchange for the payment of fees, the Government would assume responsibility for permanent disposal. The fees were to ensure that the reactor owners and power generators pay the full cost of the disposal of their used nuclear fuel and high-level radioactive waste.

***Nuclear Waste Fund Settlements and the Judgment Fund Baseline.***—The Federal Government did not meet its contractual obligation to begin accepting used nuclear fuel by 1998. As a result of litigation by contract holders, the Government was found in partial breach of contract, and is now liable for damages to some utilities to cover the costs of on-site, at-reactor storage.

The cost of the Government’s growing liability for partial breach of contracts with nuclear utilities is paid from the Judgment Fund of the U.S. Government. While payments are extensively reviewed by Department of Energy, and must be authorized by the Attorney General prior to disbursement by the Department of the Treasury, as mandatory spending they are not subject to Office of Management and Budget or Congressional approval. Past payments are included in full in the Budget, but until fiscal year 2014 the Budget has included only a partial estimate of the potential future cost of continued insufficient action. To improve budget projections, the baseline for the Judgment Fund now reflects a more complete estimate of potential future cost of these liabilities. By reflecting a more complete estimate of the liability payments in the baseline, costs over the life of the nuclear waste management and disposal program would eventually be offset by reductions in liabilities as the Government begins to pick up sufficient waste from commercial sites.

***Nuclear Waste Fee Collections.***—To satisfy a U.S. Court of Appeals mandate in *National Association of Regulatory Utility Commissioners v. United States Department of Energy*, the Secretary of Energy submitted a proposal to the Congress in January 2014 to adjust the Nuclear Waste Fund fee to zero, which if implemented would result in a loss of approximately $750 million in annual receipts. The court-ordered proposal submitted by the Department of Energy was not the result of and was not consistent with the determination the Secretary is required to make pursuant to the Nuclear Waste Policy Act (NWPA), as amended, 42 U.S.C. 10101 et seq, regarding the adequacy of the fee. The Secretary of Energy has not determined that the fees being collected are in excess of those required to offset the costs of the nuclear waste management and disposal program, nor has the Secretary determined that collecting no fee will "insure full cost recovery." The Department of Justice is seeking a rehearing en banc in *National Association of Regulatory Utility Commissioners v. United States Department of Energy*. Consequently, both the BBEDCA and adjusted baselines currently assume that the fee will continue to be collected.

### Fannie Mae and Freddie Mac

The Budget continues to present Fannie Mae and Freddie Mac, the housing Government-Sponsored Enterprises (GSEs) currently in Federal conservatorship, as non-Federal entities. However, Treasury equity investments in the GSEs are recorded as budgetary outlays, and the dividends on those investments are recorded as offsetting receipts. In addition, the budget estimates reflect collections from the 10 basis point increase in GSE guarantee fees that was enacted under the Temporary Payroll Tax Cut Continuation Act of 2011 (P.L. 112-78). The Administration's February 2011 white paper outlined a commitment to wind down the GSEs, facilitate the return of private capital to the housing market, and work with the Congress to reform the larger housing finance system. The Budget continues the Administration's commitment to reduce the size of the GSEs' investment portfolios by at least 15 percent a year. The GSEs are discussed in more detail in Chapter 20, "Credit and Insurance".

### Fair Value for Credit Programs

The Federal Credit Reform Act of 1990 (FCRA) changed the budget measure of cost for Federal direct loans and loan guarantees provided to individuals and non-Federal entities. Prior to the enactment of FCRA, the Government's credit programs were reflected in the budget on a cash basis, which was a poor measure of cost for these programs. The costs of direct loans were overstated, as the budget reflected outlays for the initial cash disbursement to make the loan, but did not properly account for the expected future income from repayments, interest, and fees, net of losses. For loan guarantees, costs were understated because outlays were only recorded when the Government disbursed cash to make good on the guarantees—generally years after the borrower receives the loan, which is long after the Government incurs the cost. FCRA significantly improved the budget measure of cost for Federal credit programs by recording the estimated lifetime cost up front on a present value basis. Under FCRA, the costs of loans and guarantees take into account all of the cash flows associated with the credit instrument, and the Government's cost of financing these cashflows by discounting using the Treasury rate.

In recent years, some analysts have argued that credit programs impose costs on taxpayers that are not reflected under FCRA, such as the risk that assets may perform worse than expected, and would propose to amend FCRA to require that the budget use fair value estimates for credit programs. Under fair value, comparable market rates would be used to discount expected cash flows, instead of Treasury rates. While fair value may offer some useful insights and inform decision-making in some cases, using fair value for budgetary cost estimates of credit programs raise serious conceptual and implementation issues that would exceed the potential benefits from such estimates. Chapter 20, "Credit and Insurance," discusses some of these issues.

### Debt Net of Financial Assets

In the Summary Tables included in the main *Budget* volume, Tables S-1 and S-13 display both debt held by the public and debt held by the public net of financial assets. Borrowing from the public is normally a good approximation of the Federal demand on credit markets. However, it provides an incomplete picture of the financial condition of the Government and under some circumstances may misrepresent the net effect of Federal activity on credit markets. Some transactions that increase the Federal debt also increase the financial assets held by the Government. For example, when the Government lends money to a private firm or individual, the Government acquires a financial asset that provides a stream of future payments of principal and interest, net of the Government's expected losses on the loan. At the time the loan is made, debt held by the public reflects only Treasury's borrowing to finance the loan, failing to reflect the value of the loan asset acquired by the Government. Similarly, the estimate of debt held by the public does not reflect estimated liabilities on loan guarantees. In contrast, debt held by the public net of financial assets provides a more accurate measure of the Government's net financial position by including the value of loans and other financial assets held by the Government. While Federal borrowing reduces the amount of private saving that is available through financial markets for private-sector investment, Federal acquisition of financial assets has the opposite effect—it injects cash into financial markets. Thus, the change in debt net of financial assets can also better indicate the effect of the Federal Government on the financial markets. For further discussion of debt net of financial assets, see Chapter 4, "Federal Borrowing and Debt."