



Highlights of [GAO-03-213](#), a report to the Committee on the Budget, House of Representatives

Why GAO Did This Study

GAO and other budget experts have discussed that the current time horizons and content of the federal budget could be enhanced to more comprehensively reflect the government's commitments or signal emerging problems. GAO was asked to (1) provide information on the range and nature of responsibilities, programs, and activities that may explicitly or implicitly expose the government to future spending and (2) present and discuss options for increasing the attention paid to these items in the budget and budget process.

What GAO Recommends

GAO recommends that OMB report annually on fiscal exposures. Where possible, OMB should report the estimated costs—"exposure level"—of certain activities in the Program and Financing schedules of the budget. In a few select areas, the ultimate objective might be to include costs directly in the budget when doing so would enhance up-front control of spending.

Congress may wish to consider exploring options for improving the budgetary information and the attention given to fiscal exposures. If more explicit congressional consideration is desired, as estimates improve, Congress may wish to develop budget process mechanisms that prompt more deliberation.

www.gao.gov/cgi-bin/getrpt?GAO-03-213.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Paul Posner at (202) 512-9573 or posnerp@gao.gov.

FISCAL EXPOSURES

Improving the Budgetary Focus on Long-Term Costs and Uncertainties

What GAO Found

The federal government undertakes a wide range of responsibilities, programs, and activities that may either obligate the government to future spending or simply create an expectation for spending. GAO uses the concept of "fiscal exposure" (risk) to provide a framework to consider these long-term costs and uncertainties.

Fiscal exposures vary widely as to source, extent of the government's legal obligation, likelihood of occurrence, and magnitude. These exposures include items such as retirement benefits, environmental cleanup costs, and future social insurance benefits. Given this variety, it is useful to think of a spectrum extending from explicit liabilities to implicit promises embedded in current policy or public expectations.

Fiscal exposures warrant budgetary attention and oversight. Demographic trends, in particular, argue for considering the long-term sustainability and flexibility of the government's fiscal position. Regardless of whether the government is legally required or simply compelled by circumstances, some exposures may encumber future budgets and constrain fiscal policy. Not capturing the long-term costs of current decisions limits Congress's ability to control the government's fiscal exposures at the time decisions are made.

Current budget reporting, however, does not always fully capture or require explicit consideration of some fiscal exposures. For some exposures, such as environmental cleanup costs, the government's commitment occurs years before the cash consequences are reflected in the budget. Other potential draws on future resources, such as life-cycle costs for fixed assets and disaster assistance, may not flow from commitments of a strictly legal nature but from public expectations.

Determining how to improve the budgetary attention to fiscal exposures is complicated by difficulties in (1) determining the scope of items to be considered and (2) estimating costs. The variety of fiscal exposures and the difficulties in estimating their costs suggest that an across-the-board approach may not be the best way to proceed. Improved supplemental information may be helpful to increase transparency without introducing additional uncertainty and complexities into the budget. In cases where the extent of the government's obligation or ultimate costs (or both) is unclear, supplemental reporting may be the most appropriate approach. Beyond increasing supplemental reporting, providing more opportunities to consider fiscal exposures in the budget process may help facilitate explicit consideration of certain exposures. Finally, in some cases where there is an explicit liability and accepted, reasonable cost estimates exist, additional steps may be taken to directly incorporate costs in the budget when doing so would enhance up-front control of spending.