ANALYTICAL PERSPECTIVES

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 2009

THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 2009 contains the Budget Message of the President, information on the President's priorities, and budget overviews organized by agency.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 2009 contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective. This volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; information on Federal borrowing and debt; baseline or current services estimates; and other technical presentations.

The *Analytical Perspectives* volume also contains supplemental material with several detailed tables, including tables showing the budget by agency and account and by function, subfunction, and program, that is available on the Internet and as a CD-ROM in the printed document.

Historical Tables, Budget of the United States Government, Fiscal Year 2009 provides data on budget receipts, outlays, surpluses or deficits, Federal debt, and Federal employment over an extended time period, generally from 1940 or earlier to 2009 or 2013. To the extent feasible, the data have been adjusted to provide consistency with the 2009 Budget and to provide comparability over time.

Appendix, Budget of the United States Government, Fiscal Year 2009 contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committees. The *Appendix* contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language; budget schedules for each account; legislative proposals; explanations of the work to be performed and the funds needed; and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Information is also provided on certain activities whose transactions are not part of the budget totals.

AUTOMATED SOURCES OF BUDGET INFORMATION

The information contained in these documents is available in electronic format from the following sources:

Internet. All budget documents, including documents that are released at a future date, spreadsheets of many of the budget tables, and a public use budget database are available for downloading in several formats from the Internet. Links to documents and materials from budgets of prior years are also provided. To access these documents use the following address:

www.budget.gov/budget

Budget CD-ROM. The CD-ROM contains all of the budget documents in fully indexed PDF format along with the software required for viewing the documents. The CD-ROM has many of the budget tables in spreadsheet format and also contains the materials that are included on the separate *Analytical Perspectives* CD-ROM.

For more information on access to electronic versions of the budget documents (except CD-ROMs), call (202) 512–1530 in the D.C. area or toll-free (888) 293–6498. To purchase the budget CD-ROM or printed documents call (202) 512–1800.

GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office

Internet: bookstore.gpo.gov Phone: (202) 512–1800 Toll-Free 1–866–512–1800 Fax: (202) 512–2104

Mail: Stop SSOP, Washington, DC 20402–0001

ISBN 978-0-16-079690-6

TABLE OF CONTENTS

TABLE OF CONTENTS—Continued

LIST OF CHARTS AND TABLES

LIST OF CHARTS AND TABLES

LIST OF CHARTS

Page

LIST OF TABLES

Page

Crosscutting Programs

Homeland Security Funding Analysis:

LIST OF TABLES—Continued

LIST OF TABLES—Continued

LIST OF TABLES—Continued

LIST OF TABLES—Continued

Page

LIST OF TABLES—Continued

INTRODUCTION

1. INTRODUCTION

Purpose of This Volume

The *Analytical Perspectives* volume presents analyses that highlight specific subject areas or provide other significant data that place the budget in context. This volume presents crosscutting analyses of Government programs and activities from several perspectives.

Presidential budgets have included separate analytical presentations of this kind for many years. The 1947 Budget and subsequent budgets included a separate section entitled “Special Analyses and Tables” that covered four or more topics. For the 1952 Budget, the section was expanded to ten analyses, including many subjects still covered today, such as receipts, investment, credit programs, and aid to State and local governments. With the 1967 Budget this material became a separate volume entitled “Special Analyses,” and included 13 chapters. The material has remained a separate volume since then, with the exception of the Budgets for 1991–1994, when all of the budget material was included in one large volume. Beginning with the 1995 Budget, the volume has been named *Analytical Perspectives*.

The *Analytical Perspectives* volume this year continues to reflect an interest in publishing more information on program performance, so that Executive agencies, the Congress, and the public will become increasingly informed about how well programs are performing. Increased performance information can help managers improve program effectiveness, and can help Executive and Congressional policymakers improve the allocation of public resources. On November 13, 2007, President Bush issued an Executive Order that formalizes the commitment of the U.S. government to spend the taxpayers’ money wisely and more effectively every year. The performance assessment information is summarized in Chapter 2, “Performance Improvement Initiative,” and is discussed in many other chapters, especially those in the section, “Crosscutting Programs.” One-page summaries of each program assessment are available at *www.ExpectMore.gov* and further information on the PART process is available at *www.omb.gov/part*.

Again this year, several large tables are included at *http://www.whitehouse.gov/omb/budget/fy2009/spec.html* for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume. A list of these items is in the Table of Contents.

Overview of the Chapters

Introduction

1. Introduction. This chapter discusses each of the subsequent chapters briefly and highlights the emphasis on performance in a crosscutting context.

Performance and Management Assessments

2. Performance Improvement Initiative. This chapter summarizes the performance and management assessments that have been completed to date using the Program Assessment Rating Tool (PART). One-page summaries of the program evaluations, as well as detail on each of the assessments can be found at *www.ExpectMore.gov*.

Crosscutting Programs

3. Homeland Security Funding Analysis. This chapter discusses homeland security funding and provides information on homeland security program requirements, performance, and priorities. Additional detailed information is available at *http://www.whitehouse.gov/omb/budget/fy2009/spec.html* for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

4. Strengthening Federal Statistics. This chapter discusses the development of standards that principal statistical programs can use to assess their performance and presents highlights of their 2009 Budget proposals.

5. Research and Development. This chapter presents a crosscutting review of research and development funding in the Budget, including discussions about priorities, performance, and coordination across agencies.

6. Federal Investment. This chapter discusses federally-financed spending that yields long-term benefits. It presents information on annual spending on physical capital, research and development, and education and training, and on the cumulative capital stocks resulting from that spending. Also included in this chapter is material on the PART assessments related to direct Federal investment spending.

7. Credit and Insurance. This chapter provides crosscutting analyses of the roles, risks, and performance of Federal credit and insurance programs and Government-sponsored enterprises (GSEs). It covers the categories of Federal credit (housing, education, business including farm operations, and international) and insurance programs (deposit insurance, pension guarantees, disaster insurance, and insurance against security-related risks). Two detailed tables, “Table 7–10. Direct Loan Transactions of the Federal Government” and “Table 7–11. Guaranteed Loan Transactions of the Federal Government,” are available at *http://www.whitehouse.gov/omb/budget/fy2009/spec.html* for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

8. Aid to State and Local Governments. This chapter presents crosscutting information on Federal grants to State and local governments, including highlights of Administration proposals. This chapter also includes material on the PART assessments related to grants. An Appendix to this chapter includes State-by-State spending estimates of major grant programs.

9. Integrating Services with Information Technology. This chapter presents a crosscutting look at investments in information technology (IT). It describes various aspects of the Administration's information technology agenda, with special emphasis on the performance, efficiency, and effectiveness of the Government's IT investments. Several detailed tables are available at *http://www.whitehouse.gov/omb/budget/fy2009/spec.html* for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

10. Federal Drug Control Funding. This chapter presents estimated drug control funding for Federal departments and agencies.

11. California-Federal Bay-Delta Program Budget Crosscut (CALFED). This chapter presents information on Federal and State funding for the California-Federal Bay-Delta Program, in fulfillment of the reporting requirements for this program. Detailed tables on funding and project descriptions are available at *http://www.whitehouse.gov/omb/budget/fy2009/spec.html* for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

Economic Assumptions and Analyses

12. Economic Assumptions. This chapter reviews recent economic developments; presents the Administration's assessment of the economic situation and outlook, including the effects of macroeconomic policies; and compares the economic assumptions on which the Budget is based with the assumptions for last year's budget and those of other forecasters. This chapter also covers topics related to the effects on the budget of changes in economic conditions and assumptions.

13. Stewardship. This chapter assesses the Government's financial condition and sustainability in an integrated framework that includes Federal assets and liabilities; 75-year projections of the Federal budget under alternative assumptions; actuarial estimates for the shortfalls in Social Security and Medicare; a discussion of tax compliance; a national balance sheet that shows the Federal contribution to national wealth; and a table of economic and social indicators. Together these elements serve similar analytical functions to a business's accounting statements.

14. National Income and Product Accounts. This chapter discusses how Federal receipts and outlays fit into the framework of the National Income and Product Accounts (NIPAs) prepared by the Department of Commerce. The NIPA measures are the basis for reporting Federal transactions in the gross domestic product (GDP) and for analyzing the effect of the budget on aggregate economic activity.

Budget Reform Proposals

15. Budget Reform Proposals. This chapter includes a brief description of the Administration's budget reform agenda for addressing the need for responsible budgeting and other reforms.

Federal Borrowing and Debt

16. Federal Borrowing and Debt. This chapter analyzes Federal borrowing and debt and explains the budget estimates. It includes sections on special topics such as the trends in debt, agency debt, investment by Government accounts, and the debt limit.

Federal Receipts and Collections

17. Federal Receipts. This chapter presents information on receipts estimates, enacted tax legislation, and the receipts proposals in the Budget.

18. User Charges and Other Collections. This chapter presents information on receipts from regulatory fees and on collections from market-oriented activities, such as the sale of stamps by the Postal Service, which are recorded as offsets to outlays rather than as Federal receipts.

19. Tax Expenditures. This chapter describes and presents estimates of tax expenditures, which are defined as revenue losses from special exemptions, credits, or other preferences in the tax code. An appendix discusses possible alternatives to the current tax expenditure baselines.

Dimensions of the Budget

20. Comparison of Actual to Estimated Totals. This chapter compares the actual receipts, outlays, and deficit for 2007 with the estimates for that year published two years ago in the 2007 Budget. It also includes a historical comparison of the differences between receipts, outlays, and the deficit as originally proposed with final outcomes.

21. Outlays to the Public, Gross and Net. This chapter provides information on outlays gross and net of offsetting collections and offsetting receipts by agency. Outlays are a measure of Government spending. Offsetting collections and offsetting receipts are netted against gross outlays and result primarily from the Government's business-like activities, such as the sale of stamps by the Postal Service.

22. Trust Funds and Federal Funds. This chapter provides summary information on Federal funds and trust funds, which comprise the entire budget. For trust funds the information includes income, outgo, and balances.

23. Off-Budget Federal Entities and Non-Budgetary Activities. This chapter discusses off-budget Federal entities (Social Security and Postal Service) and non-budgetary activities (such as cash flows for credit programs, deposit funds, and regulation).

24. Federal Employment and Compensation. This chapter provides summary data on the level and recent trends in civilian and military employment, personnel compensation and benefits, overseas staffing, and the full compensation of military personnel.

Current Services Estimates

25. Current Services Estimates. This chapter presents estimates, based on rules similar to those contained in the Budget Enforcement Act (BEA), of what receipts, outlays, and the deficit would be if no changes were made to laws already enacted. It discusses the conceptual framework for these estimates and describes differences with the BEA requirements. Two detailed tables, "Table 25–13. Current Services Budget Authority by Function, Category, and Program" and "Table 25–14. Current Services Outlays by Function, Category, and Program," are available at *http://www.whitehouse.gov/omb/budget/fy2009/spec.html* for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

Budget System and Concepts

26. The Budget System and Concepts. This chapter includes a basic reference to the budget process, concepts, laws, and terminology, and includes a glossary of budget terms.

Other

The following materials are available at *http://www.whitehouse.gov/omb/budget/fy2009/spec.html* for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

- *Detailed Functional Tables.* Table 27–1. "Budget Authority and Outlays by Function, Category, and Program".
- *Federal Programs by Agency and Account.* Table 28–1. "Federal Programs by Agency and Account".

PERFORMANCE AND MANAGEMENT ASSESSMENTS

2. PERFORMANCE IMPROVEMENT INITIATIVE

I. INTRODUCTION

The American people expect the Federal government to implement programs that will ensure the Nation's security, provide critical national level services and produce meaningful results. To hold government accountable for its performance, taxpayers must have clear and candid information about the successes and failures of all Federal programs. For the third straight year, the Administration is providing this type of information to the public on *ExpectMore.gov*, a user-friendly government website that allows public access to government programs. ExpectMore.gov describes which government programs are performing, which ones are not, and in both situations, what is being done to improve them.

The objective of the President's Performance Improvement Initiative (PII) (formerly the Budget and Performance Integration Initiative) is to ensure that Federal dollars produce the greatest results possible. The Initiative provides information on program performance to help the President and Congress make better, more informed decisions about the programs.

The PII focuses on performance in two principal ways:

- *Improved Program Performance:* The initiative requires each agency to identify opportunities to improve program management and design, and then develop and implement clear, aggressive plans to get more from tax dollars every year. Agencies have ready access to program performance information from a variety of sources such as the Program Assessment Rating Tool (PART) and other independent program evaluations, investigations, audits, and analyses.
- *Greater Investment in Successful Programs:* Although performance is not the only factor used to decide the size of a program's budget, Congress and the President can utilize information about a program's effectiveness and efficiency in decision-making so that taxpayer dollars are invested in programs that provide the greatest return to the Nation. If poorly performing programs are unable to demonstrate improved results, then their resources may be reallocated to programs that can demonstrate greater success and returns to the taxpayer.

Currently, the PII is showing great progress toward helping programs become more efficient and more effective through implementation of meaningful improvement plans.

Many programs are demonstrating improved results. For example:

- **Social Security Administration (SSA):** SSA increased agency productivity by 15.5 percent since 2001 through increased use of information technology and improved business processes. SSA would have required $980 million more in 2007 to process the same work if productivity improvements had not been realized.
- **High Intensity Drug Trafficking Areas (HIDTA):** The HIDTA program improved the way it measures success by implementing a system for tracking and analyzing performance data. Using this information, more drug trafficking organizations were dismantled for less money. In 2005, 2,183 Drug Trafficking Organizations were dismantled for $80,000 each. By 2006, 2,332 were dismantled for $76,000 each.
- **Administration on Aging (AoA):** AoA improved its outreach and services to elderly Americans who suffer from disease and disability. In 2006, there were 18 States that improved targeting to those living below the poverty level, serving an additional 80,000 elderly individuals who lived in poverty. Over 345,000 elderly and disabled individuals, who due to their physical conditions would otherwise be living in nursing homes, can continue to live in their own homes and stay connected to their communities. This is an increase of more than 52,200 nursing home-eligible individuals since 2003.
- **Federal Bureau of Prisons (BOP):** In 2006 as a part of its "Greening Prisons" initiative, the BOP piloted renewable energy technologies in several prisons and generated savings of $1.1 million. As a result, in 2006 and 2007, BOP entered into 18 new national Energy Savings Performance Contracts with energy services companies to generate additional savings.

Agencies are identifying additional actions to improve the performance of each of their programs. For example:

Progress toward the second PII goal of improving resource allocation has been limited, but this year, the Administration had more success in terminating some low-performing programs and targeting those resources to well-performing programs. In 2008 seven programs were terminated, saving $156 million and six programs were reduced, saving $1.120 billion. Though no decision is based purely on performance, overall, high performing programs received larger funding increases than those that did not perform as well.

II. HOW THE PERFORMANCE IMPROVEMENT INITIATIVE WORKS

Several aspects of the Performance Improvement Initiative are designed to maximize program performance. They include:

- Comprehensively assessing performance using the PART;
- Publishing quarterly Scorecards to hold agencies accountable for managing for results, addressing PART findings, and implementing improvement plans;
- Broadcasting results to the public on *ExpectMore.gov;* and
- Facilitating program improvement through interagency collaboration and cooperation.

Comprehensive Assessment with the Program Assessment Rating Tool (PART)

How do we ensure that Federal programs are improving every year? First, we assess their current performance. In order to improve a program's outcomes, it is critical to have a good understanding of how the program is currently performing. To date, we have assessed the performance of more than 1,000 programs, comprising 96 percent of all Federal programs, using the PART.

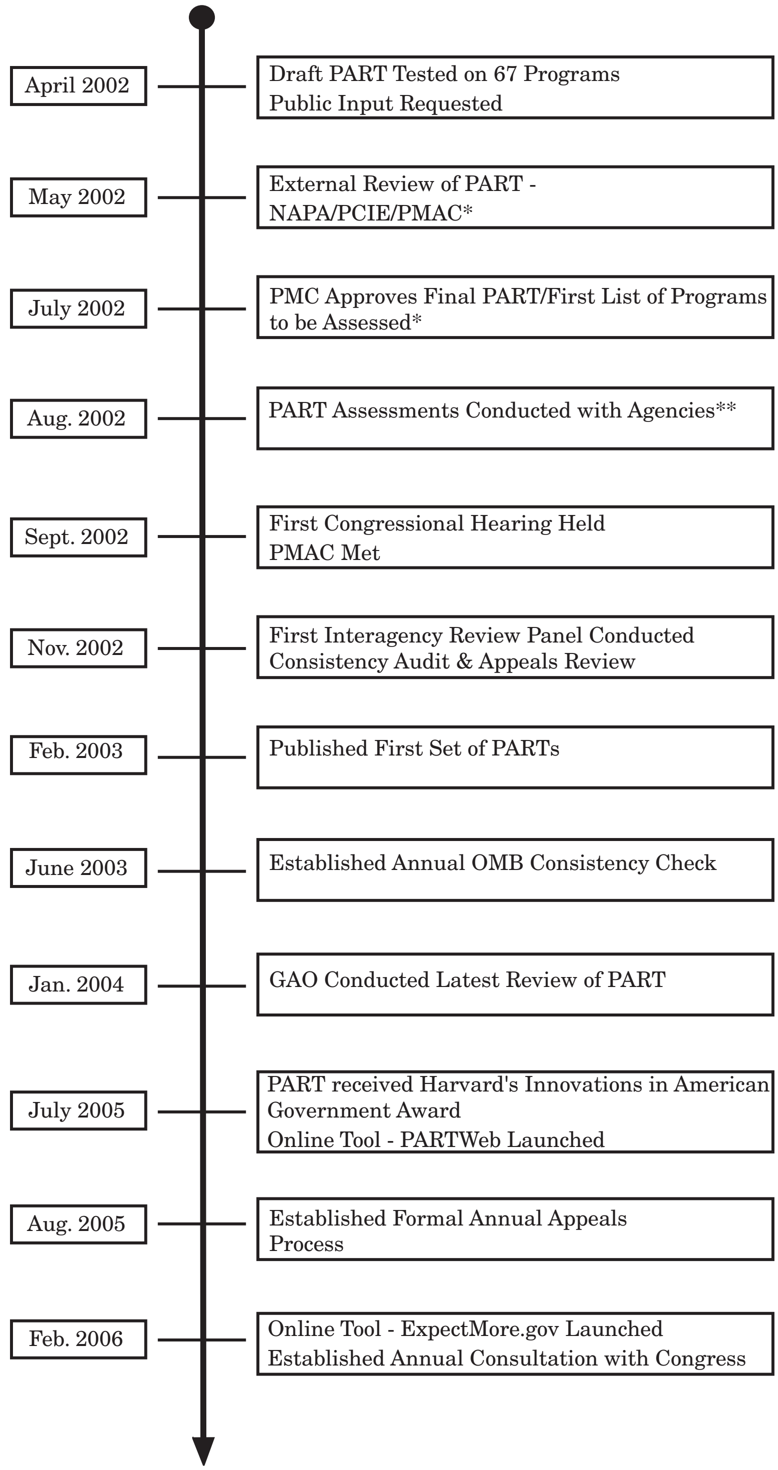
History of the PART

The Federal Government spends trillions of dollars on programs annually, but until the advent of the PART, there was not a uniform basis for assessing how well these programs actually work. For example, are the billions of taxpayer dollars the Federal Government spends on foster care actually preventing the maltreatment and abuse of children? Are Federal efforts to reduce air pollution successful? Previous administrations from President Johnson to President Clinton and Congress have grappled with this problem. Each prior administration has tried to come up with means by which government programs can be measured for results. The most significant advance in bringing accountability to government programs was the Government Performance and Results Act of 1993 (GPRA). This law requires Federal agencies to identify both annual and long-term goals and to collect and report performance data. For the first time, agencies were required to explicitly identify measures and goals for judging the performance of each of their programs and to collect information on an annual basis in order to determine whether they were meeting those goals.

This Administration built upon GPRA requirements by creating the PART (Program Assessment Rating Tool), an objective, evidence-based and easy-to-understand questionnaire about program design, planning, management, and performance. Objectivity is paramount to a PART rating. For example, when the development of the PART began in 2002, the first draft included a question relating to whether a particular program served an appropriate federal role. Because many people believed that the answer to that question would vary depending on the reviewer's philosophical outlook, the question was removed.

Public and private sector entities have reviewed the PART. Private sector reviewers have praised the PART assessment process for its transparency and objectivity and also have raised concerns that OMB has striven to address. For instance, some reviewers found that assessments of different programs lacked consistency in the answers to the same questions. OMB now audits all draft assessments to correct any obvious inconsistencies. Reviewers also found that agencies did not always agree with the final assessment of their programs. Agencies can now appeal to a high level subcommittee of the President's Management Council to dispute answers with which they disagree. To address concerns that OMB and agencies were not doing enough to involve Congress in the assessment process, agencies are now required to brief and consult their Congressional appropriators, authorizers, and overseers before the annual assessments begin.

The accompanying timeline provides a history of the development of the PART.



*NAPA = National Academy of Public Administration

PCIE = President's Council on Integrity and Efficiency

PMAC = Performance Measurement Advisory Council

PMC = President's Management Council

**20% of Programs Assessed in each Spring/Summer 2002 - 2006

What is the PART and How is it Used?

The PART helps assess the management and performance of individual programs. With the PART, agencies and OMB evaluate a program's purpose, design, planning, management, results, and accountability to determine its overall effectiveness. Agencies then identify and complete follow-up actions to improve program results.

To reflect the fact that Federal programs deliver goods and services using different mechanisms, the PART is customized by program type. The seven PART types are: Direct Federal, Competitive Grant, Block/Formula Grant, Research and Development, Capital Assets and Service Acquisition, Credit, and Regulatory. The PART types apply to both discretionary and mandatory programs. ExpectMore.gov also classifies each program by its specific program area (such as environment, transportation, education, etc.) to facilitate comparison and accelerate the improved performance of programs with similar missions.

Each PART includes 25 basic questions and additional questions tailored to the different program types. The questions are divided into four sections. The first section of questions gauges whether a program has a clear purpose and is well designed to achieve its objectives. The second section evaluates strategic planning, and weighs whether the agency establishes outcome-oriented annual and long-term goals for its programs. The third section rates the management of an agency's program, including the quality of efforts to improve efficiency. The fourth section assesses the results programs can report with accuracy and consistency.

The answers to questions in each of the four sections result in a numerical score for each section from 0 to 100 (100 being the best score). Because reporting a single weighted numerical rating could suggest false precision, or draw attention away from the very areas most in need of improvement, numerical scores are combined and translated into qualitative ratings. The bands and associated ratings are as follows:

Rating	Range
Effective	85–100
Moderately Effective	70–84
Adequate	50–69
Ineffective	0–49

Regardless of overall score, programs that do not have acceptable performance measures or have not yet collected performance data generally receive a rating of "Results Not Demonstrated." This rating suggests that not enough information and data are available to make an informed determination about whether a program is achieving results.

PART ratings do not result in automatic decisions about funding. Clearly, over time, funding should be targeted to programs that can prove they achieve measurable results. In some cases, a PART rating of "Ineffective" or "Results Not Demonstrated" may suggest that greater funding is necessary to overcome identified shortcomings, while a funding decrease may be proposed for a program rated "Effective" if it is not a priority or has completed its mission. However, most of the time, an "Effective" rating is an indication that the program is using its funding well and that major changes are not needed.

Publish a Scorecard to Hold Agencies Accountable

Agencies are achieving greater results with the help of the habits and disciplines established through the Performance Improvement Initiative (PII). These agencies recognize that the PART can be a useful tool to drive improvement in the performance of their programs.

Agency success is judged by clear, Government-wide goals or standards consistent with the Program Improvement Initiative. Agencies have developed and are implementing detailed, aggressive improvement plans to achieve these goals. Most importantly, agencies are held publicly accountable for adopting these disciplines. To meet the Standards for Success for the PII, an agency must:

- Demonstrate that senior agency managers meet at least quarterly to examine reports that integrate financial and performance information that covers all major responsibilities of the Department;
- Have strategic plans that contain a limited number of outcome-oriented goals and objectives. Annual budget and performance documents incorporate measures identified in the PART and focus

on the information used in the senior management report described in the first criterion;

- Report the full cost of achieving performance goals accurately in budget and performance documents and accurately estimate the marginal cost of changing performance goals;
- Have at least one efficiency measure for all PART-ed programs;
- Use PART evaluations to direct program improvements and hold managers accountable for those improvements, and PART findings and performance information are used consistently to justify funding requests, management actions, and legislative proposals; and
- Have less than 10 percent of agency programs receive a Results Not Demonstrated rating for two years in a row.

Each quarter, agencies receive two ratings—status and progress. First, they are rated on their status in achieving the overall goals for each initiative. They are given a green, yellow or red rating to clearly announce their performance. Green status is for success in achieving each of the criteria listed above; yellow is for an intermediate level of performance; and red is for unsatisfactory performance.

Second, agency progress on the Program Improvement Initiative standards is assessed separately. Agency progress is reviewed on a case-by-case basis against the work plan and related time lines established for each agency. Progress is also given a color rating. Green is given when implementation is proceeding according to plans agreed upon with the agencies; yellow for when some slippage or other issues require adjustment by the agency in order to achieve the initiative objectives on a timely basis; and red when the Initiative is in serious jeopardy of not realizing its objectives without significant management intervention.

As of September 30, 2007, fourteen agencies achieved green status on the Program Improvement Initiative Scorecard. The agencies at green are:

1. Department of Agriculture
2. Department of Commerce
3. Department of Education
4. Department of Energy
5. Environmental Protection Agency
6. Department of Justice
7. Department of Labor
8. Department of Transportation
9. General Services Administration
10. National Aeronautics and Space Administration
11. National Science Foundation
12. Small Business Administration
13. Smithsonian Institution
14. Social Security Administration

The Scorecard is an effective accountability tool to ensure agencies manage the performance of their programs. Although a scorecard rating is not directly linked to any specific consequences, it is quickly understood at the highest levels of the Administration as an indicator of an agency's strength or weakness.

The Government-wide scorecard reporting on individual agency progress is published quarterly at *www.results.gov/agenda/scorecard.html.*

Broadcast Results on ExpectMore.gov

ExpectMore.gov provides Americans with candid information about which programs work, which do not, and what all programs are doing to get better every year.

Up until the launch of *ExpectMore.gov* last year, Americans had limited access to information on how well the Federal Government performed. Now, Americans can see for themselves how their government programs are performing. In many cases, the Federal Government performs well. In some cases, it performs better than the private sector.

ExpectMore.gov contains summaries of PART results for all programs that have been assessed to date. The site provides program information that a concerned citizen could use to assess a program's performance. Each assessment includes a brief description of the program's purpose, its overall rating, some highlights about its performance and the steps it will take to improve in the future. For individuals interested in more information, the site also provides links to the detailed program assessment, as well as that program's website and the assessment summaries of other similar programs. The detailed PART assessment includes the answer to each PART question with an explanation and supporting evidence. It also includes the performance measures for the program along with current performance information. In addition, there is an update on the status of follow-up actions to improve program performance.

A visitor to the site may find, at least initially, that programs are not performing as well as they should or program improvement plans are not sufficiently ambitious. We expect this site to help change that. The website has a variety of benefits, including:

- Increased public attention to performance;
- Greater scrutiny of agency action (or inaction) to improve program results:
  - —Improvement plans are transparent
  - —Statements about goals and achievements are clearer; and
- Demand for better quality and more timely performance data.

Implement Inter-Agency Program Improvement

The Administration continues to look for new ways to improve the performance of programs with similar purposes or designs by using the PART to analyze performance across agencies (i.e., cross-cutting analysis) and State and local levels. Cross-cutting analysis can improve coordination and communication by encouraging managers from multiple agencies to agree to a common set of goals and by placing the focus on quantifiable results. Cross-cutting analysis breaks down barriers across the Federal, State, and local levels so that all entities work toward the same goal. Only topics that are expected to yield meaningful results are selected for cross-cutting analyses. To date, the Administration completed cross-cutting analyses of the government's math and science programs, community and economic development programs, import and food safety programs, and others.

III. RESULTS

As mentioned above, the PII measures its progress according to two key principles:

- Improved Program Performance; and
- Greater Investment in Successful Programs

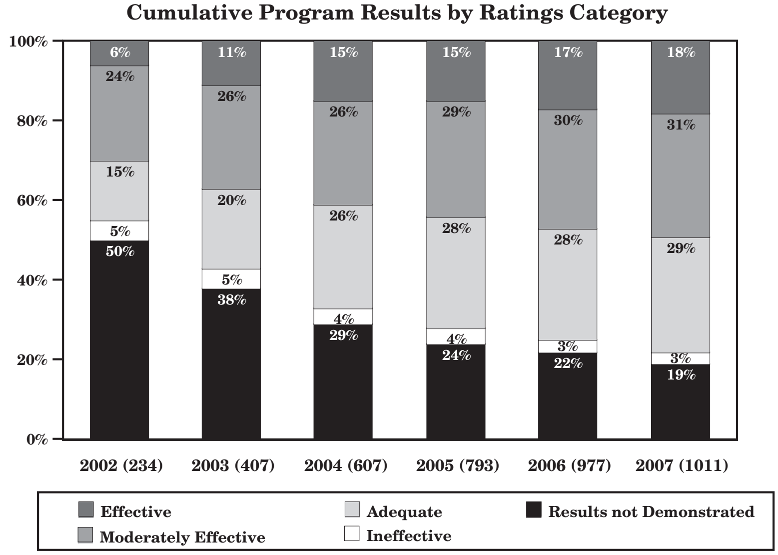
There has been greater success in leading agencies to think more systematically about how they measure and improve program performance. Though there are many factors that impact program performance, it is clear that the PII has framed the discussion around results. Agencies have developed ways to measure their efficiency so they can figure out how to achieve more with Americans' tax dollars.

2009 marks the sixth year that the PART was used to (1) assess program performance, (2) take steps to improve program performance, and (3) help link performance to budget decisions. To date, the Administration has assessed more than 1,000 programs, representing approximately 96 percent of the Federal budget. The Administration will use the PART to assess the performance and management of the remaining Federal programs.

With the help of the PART, we have improved program performance and transparency. There has been a substantial increase in the total number of programs rated either "Effective", "Moderately Effective", or "Adequate". This increase came from both re-assessments and newly PARTed programs. The chart below shows the percentage of programs by ratings category.

Chart 2-1. Program Ratings are Improving

Cumulative Program Results by Ratings Category



These results demonstrate that the PII has been very successful in focusing Agencies' attention on program performance. For example, approximately:

- 89 percent of programs established or clarified their long-term and annual performance goals to focus on the outcomes that are important to the American people.
- 82 percent of programs are achieving their performance goals.
- 73 percent of programs are measuring their efficiency, a relatively new activity for Government programs.
- 70 percent of programs are improving efficiency annually, producing more value per dollar spent.
- 55 percent of programs that were initially unable to demonstrate results have improved their overall performance rating.

Unfortunately, there has not been a similar level of accomplishment in the second measure: Greater Investment in Successful Programs. Though Congressional use of performance information has been limited, most in the Congress are aware of the PART. This topic was discussed extensively in recent debates in the Senate.

Senator Wayne Allard introduced an amendment to cut funding for programs funded in the Labor, HHS, and Education 2008 Appropriations Bill rated as "Ineffective" by 10 percent across the board. In advocating his amendment, Senator Allard said:

> *These assessments represent the combined wisdom of career officials. This is not a political process. These are objective evaluations done by career officials at agencies and OMB, and are based on evidence of that program's performance. While a program's overall rating should not be the sole determinant of funding, Congress should prioritize funding programs that perform well. Ineffective programs in particular should be scrutinized to determine whether the resources they use could be better spent elsewhere and whether their goals could be achieved through other means.*

Senator Allard brought warranted focus on programs that aren't performing as they should. In arguing against the amendment, Senator Tom Harkin said:

> *The Program Assessment Rating Tool... is intended to help assess the management and performance of individual programs. So it is not just a question of whether the program works, it also evaluates whether Congress has designed the program in a clear manner and whether Federal agencies do a good job managing the program.*

Both Senators went on to have a substantive debate about how programs were performing and how to get them to perform better. And soon thereafter, in arguing for his own amendment, Senator John Cornyn said:

> *The Office of Management and Budget has recently reviewed over a thousand programs. As this chart indicates, upon a review of 1,016 Federal Government programs, they have concluded that 22 percent of those programs rated either as ineffective or they are unable to determine whether they are effective. In other words, they are unable to find evidence that they are effective. They have not conclusively determined them as ineffective, but they have concluded that 22 percent of the Federal Government programs are either ineffective or the results are not demonstrated. Anybody who is interested anywhere in the world—certainly in the United States—can look at the information on this ExpectMore.gov Web site and inform themselves, as I am sure they would want to, about what the Federal Government is doing and not doing on their behalf.*

This debate on Senator Allard's amendment was an important one. It shows increasing attention to the objective rating of program performance.

IV. NEXT STEPS

The PII has identified several activities to improve program effectiveness over the coming year:

Ensure Program Goals are Adequate and Improvement Plans are Aggressive and Result in Improved Performance.—Review of all completed PARTs and program goals, as well as rigorous follow-up on recommendations from the PART will accelerate improvements in the performance of Federal programs. This will ensure that the hard work done through the PART produces performance and management improvements. Additionally, implementation of improvement must be tracked and reported.

Appoint Agency Performance Improvement Officers.—To ensure successful implementation of the new policy of the Federal Government embodied in Executive Order 13450 to spend taxpayer dollars effectively, and more effectively each year, each agency will appoint Performance Improvement Officers. Performance Improvement Officers are responsible for coordinating the performance improvement activities of their agencies, including:

- Developing and improving the agency's strategic plans, annual performance plans, and annual performance reports, as well as ensuring the use of such information in agency budget justifications;
- Ensuring program goals are aggressive, realistic, and accurately measured;
- Regularly convening agency program management personnel to assess and improve program performance and efficiency; and
- Assisting the head of the agency in the development and use within the agency of performance measures in personnel performance appraisals, particularly those of program managers, to ensure real accountability for greater effectiveness.

Expand Cross-Cutting Analyses.—Use the PART to facilitate cross-cutting analysis where there is a higher return than approaching programs individually. The goal of these efforts is to increase efficiency and save dollars, building on the success of previous cross-cutting analyses. Congressional guidance will be a factor in choosing topics for the next group of cross-cutting analyses.

Maximize ExpectMore.gov Impact.—The Federal Government should be accountable to the public for its performance. This web-based tool provides candid information on how programs are performing and what they are doing to improve. The PII Initiative will work to increase the reach and impact of this valuable information to improve program performance and accountability for results.

Note.—A table with summary information for all programs that have been reviewed using the Program Assessment Rating Tool (PART) is available at: *www.whitehouse.gov/omb/expectmore/part.pdf*. This table provides program ratings, section scores, funding levels, and other information. Additionally, a complete data file and data model of all assessments on ExpectMore.gov is available at: *www.whitehouse.gov/omb/expectmore/whatsnew.htm*. This is a comma-separated values file that academics and researchers can use to analyze performance data.

CROSSCUTTING PROGRAMS

3. HOMELAND SECURITY FUNDING ANALYSIS

Since the terrorist attacks of September 11, 2001, the Federal Government, with State, local and private sector partners, has engaged in a concerted national effort to prevent terrorist attacks within the United States, reduce America's vulnerability to terrorism, and minimize the damage and recover from any attacks that do occur. Accordingly, we have identified and pursued terrorists abroad, and implemented an array of measures to secure our citizens and resources at home. We have worked with the Congress to reorganize the Federal Government; acquire countermeasures to chemical, biological, radiological, and nuclear (CBRN) weapons; enhance the security of our borders; protect our critical infrastructure and key resources; and strengthen America's response and recovery capabilities in our cities and local communities. Elements of our National Strategy for Homeland Security involve every level of government as well as the private sector and individual citizens. Since September 11th, homeland security has continued to be a major policy focus for all levels of government, and the U.S. government has no more important mission than securing the Homeland.

Underscoring the importance of homeland security as a crosscutting Government-wide function, section 889 of the Homeland Security Act of 2002 requires a homeland security funding analysis to be incorporated in the President's Budget. This analysis addresses that legislative requirement. This analysis covers the homeland security funding and activities of all Federal agencies, not only those carried out by the Department of Homeland Security (DHS), but also State, local, and private sector expenditures. Since not all activities carried out by DHS constitute homeland security funding (e.g. response to natural disasters and Coast Guard search and rescue activities), DHS estimates in this section do not represent the entire DHS budget.

Data Collection Methodology and Adjustments

The Federal spending estimates in this analysis utilize funding and programmatic information collected on the Executive Branch's homeland security efforts.[1] Throughout the budget formulation process, the Office of Management and Budget (OMB) collects three-year funding estimates and associated programmatic information from all Federal agencies with homeland security responsibilities. These estimates do not include the efforts of the Legislative or Judicial branches. Information in this chapter is augmented by a detailed appendix of account-level funding estimates, which is available on the *Analytical Perspectives* CD-ROM.

To compile this data, agencies report information using standardized definitions for homeland security.[2] The data provided by the agencies are developed at the "activity level," which is a set of like programs or projects, at a level of detail sufficient to consolidate the information to determine total Governmental spending on homeland security.

To the extent possible, this analysis maintains programmatic and funding consistency with previous estimates. Some discrepancies from data reported in earlier years arise due to agencies' improved ability to extract homeland security-related activities from host programs and refine their characterizations. As in the Budget, where appropriate, the data is also updated to reflect agency activities, Congressional action, and technical re-estimates. In addition, the Administration may refine definitions or mission area estimates over time based on additional analysis or changes in the way specific activities are characterized, aggregated, or disaggregated.

Federal Expenditures

Total funding for homeland security has grown significantly since the attacks of September 11, 2001. For 2009, the President's Budget includes $66.3 billion of gross budget authority for homeland security activities, a $4.5 billion (7.3 percent) increase over the 2008 enacted level.[3] Excluding mandatory spending, fees, and the Department of Defense's (DOD) homeland security budget, the 2009 Budget proposes a net, non-Defense, discretionary budget authority level of $40.1 billion, which is an increase of $3.9 billion (10.7 percent) over the 2008 level (see Table 3–1).

A total of 32 agency budgets comprise Federal homeland security funding in 2009. Of those, five agencies—the Departments of Homeland Security, Defense, Health and Human Services (HHS), Justice (DOJ) and Energy (DOE)—account for approximately $60.7 billion (91 percent) of total Government-wide gross discretionary homeland security funding in 2009.

---

[1] All data in the Federal expenditures section are based on the President's policy for the 2009 Budget. Additional policy and baseline data is presented in the "Additional Tables" section. Due to rounding, data in this section may not add to totals in other Budget volumes.

[2] Federal homeland security activities are currently defined by OMB in Circular A–11 as, "activities that focus on combating and protecting against terrorism, and that occur within the United States and its territories (this includes Critical Infrastructure Protection (CIP) and Continuity of Operations (COOP) data), or outside of the United States and its territories if they support domestically-based systems or activities (e.g., visa processing or pre-screening high-risk cargo at overseas ports). Such activities include efforts to detect, deter, protect against, and, if needed, respond to terrorist attacks."

[3] The 2009 gross homeland security funding request level excludes $2.2 billion for BioShield.

Table 3–1. HOMELAND SECURITY FUNDING BY AGENCY

(Budget authority, in millions of dollars)

Budget Authority	2007 Enacted	2007 Supplemental/ Emergency	2008 Enacted	2008 Supplemental/ Emergency [1]	2009 Request
Department of Agriculture	540.5	....	570.0	....	690.9
Department of Commerce [2]	205.0	....	206.9	....	262.3
Department of Defense	16,538.3	....	17,374.4	....	17,645.9
Department of Education	26.2	....	27.1	....	30.3
Department of Energy	1,719.2	....	1,828.7	....	1,942.9
Department of Health and Human Services	4,327.0	....	4,300.6	....	4,456.7
Department of Homeland Security	26,857.9	2,695.6	30,100.6	2,639.7	32,817.1
Department of Housing and Urban Development	1.9	....	1.9	....	4.1
Department of the Interior	47.8	....	49.6	....	43.5
Department of Justice	3,306.4	211.3	3,273.5	249.5	3,794.9
Department of Labor	49.4	....	47.5	....	51.4
Department of State	1,241.6	....	1,961.5	....	2,465.6
Department of Transportation	205.7	....	205.3	....	221.2
Department of the Treasury	126.8	....	116.0	....	126.6
Department of Veterans Affairs	259.8	....	271.7	....	348.1
Corps of Engineers	42.0	....	42.0	....	42.0
Environmental Protection Agency	166.7	....	138.1	....	170.3
Executive Office of the President	20.8	....	21.2	....	20.7
General Services Administration	168.2	....	143.0	225.0	119.4
National Aeronautics and Space Administration	199.2	....	205.2	....	203.0
National Science Foundation	385.4	....	373.9	....	379.0
Office of Personnel Management	2.8	....	2.3	....	2.5
Social Security Administration	194.0	....	212.6	....	221.5
District of Columbia	8.5	....	3.4	....	15.0
Federal Communications Commission	2.3	....	2.3	....	2.3
Intelligence Community Management Account	56.0	....	122.0	....	12.6
National Archives and Records Administration	17.9	....	17.7	....	18.8
Nuclear Regulatory Commission	72.2	....	72.1	....	72.8
Securities and Exchange Commission	14.3	....	16.4	....	15.9
Smithsonian Institution	80.7	....	93.1	....	96.6
United States Holocaust Memorial Museum	7.8	....	8.0	....	9.0
Corporation for National and Community Service	33.6	....	....	....	....
Total, Homeland Security Budget Authority	**56,925.9**	**2,906.9**	**61,808.4**	**3,114.3**	**66,302.5**
Less Department of Defense	–16,538.3	....	–17,374.4	....	–17,645.9
Non-Defense Homeland Security BA, excluding Mandatory PSIC Grants and BioShield	**40,387.5**	**2,906.9**	**44,434.0**	**3,114.3**	**48,656.6**
Less Fee-Funded Homeland Security Programs	–4,534.4	....	–5,347.7	....	–5,355.3
Less Mandatory Homeland Security Programs	–2,435.5	....	–2,871.7	....	–3,223.9
Net Non-Defense Discretionary Homeland Security BA, excluding Mandatory PSIC Grants and BioShield	**33,417.7**	**2,906.9**	**36,214.6**	**3,114.3**	**40,077.3**
Plus Mandatory PSIC Grants	1,000.0	....	....	....	....
Plus BioShield	....	....	....	....	2,175.0
Net Non-Defense Discretionary Homeland Security BA, including Mandatory PSIC Grants and BioShield	**34,417.7**	**2,906.9**	**36,214.6**	**3,114.3**	**42,252.3**
Obligations Limitations					
Department of Transportation Obligations Limitation	121.0	....	121.0	....	121.3

[1] The 2008 supplemental and emergency funding levels for the Departments of Homeland Security (DHS) and Justice (DOJ) include both enacted and requested supplemental and emergency funding. DHS supplemental funding includes the pending $113 million and DOJ supplemental funding includes the pending $106 million.

[2] DOC's 2007 gross full-year CR level per H.J.Res. 20 for homeland security excludes $1 billion in mandatory borrowing authority for the Public Safetly Interoperable Communications (PSIC) Grants program to provide Federal grants to public safety agencies for communications interoperability purposes. Although technically scored in 2007, this funding will be made available from proceeds of the Federal Communications Commission's 2008 auction of returned television spectrum, at which time DOC will begin obligating funds.

The growth in Federal homeland security funding is indicative of the efforts that have been initiated to secure our Nation. However, it should be recognized that fully developing the strategic capacity to protect America is a complex effort with many challenges. There is a wide range of potential threats and risks from terrorism. To optimize limited resources and minimize the potential social costs to our free and open society, we must apply a risk management approach across all homeland security efforts in order to identify and assess potential hazards (including their downstream effects), determine what levels of relative risk are acceptable, and prioritize and allocate resources among all homeland security partners, both public and private, to prevent, protect against, and respond to and recover from incidents.

Homeland security is a shared responsibility built upon a foundation of partnerships—Federal, State, local, and Tribal governments, the private and non-profit sectors, communities, and individual citizens all share common goals, responsibilities, as well as accountability, for securing the Homeland. In addition, partnerships in homeland security also extend beyond our Nation's borders, with international cooperation continuing to be an enduring feature of our approach to threats that transcend jurisdictional and geographic boundaries.

The latest *National Strategy for Homeland Security of 2007* continues to provide a framework for addressing these challenges first set out by the President's 2002 version. It guides the highest priority requirements for securing the Nation. As demonstrated below, the Federal government has used the *National Strategy* to guide its homeland security efforts.

In October 2007, the President issued an updated *National Strategy for Homeland Security,* which is serving to guide, organize, and unify our Nation's homeland security efforts. This updated *National Strategy,* which builds directly from the first *National Strategy for Homeland Security* issued in July 2002, reflects our increased understanding of the terrorist threats confronting the United States and incorporates lessons learned from exercises and real-world catastrophes. It provides a common framework through which our entire Nation should focus its homeland security efforts on the following four goals:

- prevent and disrupt terrorist attacks;
- protect the American people, our critical infrastructure, and key resources;
- respond to and recover from incidents that do occur; and
- continue to strengthen the homeland security foundation we have built to ensure our long-term success.

For this year's analysis, departments and agencies categorized their funding data based on the critical mission areas defined in the *National Strategy for Homeland Security* (July 2002), which are: Intelligence and Warning; Border and Transportation Security; Domestic Counterterrorism; Protecting Critical Infrastructures and Key Assets; Defending Against Catastrophic Threats; and Emergency Preparedness and Response. Next year's categorization will be based on the four goals of the 2007 *National Strategy for Homeland Security*.

At the Federal level, the *National Strategy* is a dynamic document being implemented through a robust interagency planning and coordination process. It includes actions that agencies use and must build upon to measure progress. In some cases, progress may be easily measured. In others, Federal departments and agencies, along with State and local governments and the private sector, are working together to develop measurable goals. Finally, in some areas, Federal departments and agencies and partners must continue to develop a better understanding of changing risks and threats—such as the biological agents most likely to be used by a terrorist group or the highest-risk critical infrastructure targets—in order to develop benchmarks that suit the needs of the moment and at the same time align to long-term goals. For example, a major inter-agency effort currently occurring at the Federal level is the tracking and updating of the National Implementation Plan for the Global War on Terrorism and attendant performance measures that address homeland security.

Funding presented in this report is analyzed in the context of major "mission areas." Activities in many of the mission areas are closely related and certain capabilities highlighted by a single mission area also enhance capabilities captured by other mission areas. For example, information gleaned from activities in the

Table 3–2. POLICY ESTIMATES—HOMELAND SECURITY FUNDING BY NATIONAL STRATEGY MISSION AREA

(Budget authority, in millions of dollars)

Agency	2007 Enacted	2007 Supplemental/ Emergency	2008 Enacted	2008 Supplemental/ Emergency	2009 Request
Intelligence and Warning	670.8	15.2	682.7	39.1	765.9
Border and Transportation Security	19,365.3	2,253.6	22,286.8	2,842.7	25,712.5
Domestic Counterterrorism	5,026.6	222.8	4,896.8	154.7	5,392.9
Protecting Critical Infrastructure and Key Assets	18,388.2	228.5	19,926.1	15.8	20,164.5
Defending Against Catastrophic Threats	8,595.9	149.9	8,278.1	2.0	9,054.8
Emergency Preparedness and Response	4,822.2	37.0	5,551.4	60.0	5,013.1
Other	56.9	....	186.5	....	198.8
Total, Homeland Security Budget Authority	**56,925.9**	**2,906.9**	**61,808.4**	**3,114.3**	**66,302.5**
Plus Mandatory Interoperability Communications Grants	1,000.0	....	....	....	....
Plus BioShield	....	....	....	....	2,175.0
Total Homeland Security Budget Authority plus Mandatory PSIC Grants and BioShield	**57,925.9**	**2,906.9**	**61,808.4**	**3,114.3**	**68,477.5**

intelligence and warning category may be utilized to inform law enforcement activities in the domestic counterterrorism category. However, for the purposes of segmenting Federal homeland security funding by mission areas, discussions of cross-cutting activities have also been separated by mission areas.

Furthermore, there are a small number of notable cross-cutting activities that are not specifically highlighted in any of the mission areas. For example, although pandemic influenza preparedness is considered an essential activity, it does not necessarily fit into a single homeland security mission area, and general bio-defense and preparedness activities of the Federal government encompass it. Nevertheless, the preparations we are making for pandemic influenza have a direct impact on our ability to defend against and respond to terrorist weapons of mass destruction (WMD) threats.

The following table summarizes funding levels by the mission areas set forth in the *2002 National Strategy for Homeland Security* ; more detailed analysis is provided in subsequent mission-specific analysis sections.

Intelligence and Warning

The Intelligence and Warning mission area covers activities to detect terrorist threats and disseminate terrorist-threat information. This category includes intelligence collection, risk analysis, and threat-vulnerability integration activities for preventing terrorist attacks. It also includes information sharing activities among Federal, State, and local governments, relevant private sector entities, and the public at large. It does not include most foreign intelligence collection—although the resulting intelligence may inform homeland security activities—nor does it fully capture classified intelligence activities. In 2009, funding for intelligence and warning is distributed between DHS (53 percent), primarily in the Office of Intelligence and Analysis; DOJ (43 percent), primarily in the Federal Bureau of Investigation (FBI); and other Intelligence Community members (4 percent). The 2009 funding for intelligence and warning activities is 12.2 percent above the 2008 level.

Table 3–3. INTELLIGENCE AND WARNING FUNDING

(Budget authority, in millions of dollars)

Agency	2007 Enacted	2007 Supplemental/ Emergency	2008 Enacted	2008 Supplemental/ Emergency	2009 Request
Department of Agriculture	7.6	....	16.8	....	16.8
Department of Commerce	1.8	....	2.0	....	2.0
Department of Homeland Security	380.1	8.0	370.2	....	403.0
Department of Justice	219.5	7.2	213.8	39.1	329.3
Department of the Treasury	5.7	....	3.6	....	7.3
Intelligence Community Management Account	56.0	....	76.4	....	7.5
Total, Intelligence and Warning	**670.8**	**15.2**	**682.7**	**39.1**	**765.9**

The major requirements addressed in the intelligence and warning mission area include:

- Unifying and enhancing intelligence and analytical capabilities to ensure officials have the information they need to prevent attacks; and
- Implementing information sharing and warning mechanisms, such as the Homeland Security Advisory System, to allow Federal, State, local, and private authorities to take action to prevent attacks and protect potential targets.

As established by the Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004, the Director of National Intelligence (DNI) ensures that this office is setting collection and analysis priorities that are consistent with the *National Intelligence Strategy*. This strategy calls for the integration of both the domestic and foreign dimensions of U.S. intelligence so that there are no gaps in our understanding of threats to the homeland.

In accordance with the IRTPA's requirements for the Information Sharing Environment (ISE), the DNI is also ensuring that information sharing takes place in an environment where access to terrorism information is matched to the roles, responsibilities, and missions of all the organizations across the intelligence community. These changes allow the intelligence community to "connect the dots" more effectively, develop a better integrated system for identifying and analyzing terrorist threats, and issue warnings more rapidly. The DNI, in conjunction with the Homeland Security Council (HSC) and relevant Federal agencies, has established the ISE Implementation Plan and ISE Privacy Guidelines in accordance with a Presidential directive in December 2005, which outlined new guidelines and protocols for improving information sharing between Federal, State, local, and foreign governments and the private sector.

The National Counterterrorism Center (NCTC) is specifically chartered to centralize U.S. Government terrorism threat analysis and ensure that all agencies receive relevant analysis and information. NCTC serves as the primary organization in the U.S. Government for analyzing and integrating all intelligence pertaining to terrorism and counterterrorism (except purely domestic terrorism) and the central and shared knowledge bank on known and suspected terrorists and international terror groups. It also ensures that agencies, as appropriate, have access to and receive the all-source intelligence support needed to execute their counterterrorism plans or perform independent, alternative analysis. NCTC is tasked with coordinating counterterrorism operational planning on a global basis and developing strategic, operational plans for the Global War on Terrorism. The NCTC, with guidance from the National Security Council and the HSC, has created the first National Implementation Plan for the Global War on Terrorism, which will further consolidate the U.S. Government's efforts on the Global War on Terrorism.

The DNI and the NCTC work to utilize the unique assets and capabilities of other Government agencies and interagency groups—some of which are reorganizing to improve these capabilities and better interface with the new intelligence structure. As such, the NCTC allocates requirements to the agencies with the assets and capabilities to address them. In addition, NCTC has formed a new core staff of analysts drawn from multiple intelligence agencies. This variety ensures that NCTC can access the Intelligence Community's full breadth of knowledge and complement the activities of individual agencies. Despite the addition of this new permanent planning staff, NCTC will not undertake direct operations but will continue to leave mission execution with the appropriate agencies. This separation ensures that agencies' chains of command remain intact and prevent potentially excessive micromanagement of counterterrorism missions. Taken together, the creation of the NCTC and recent legislation and executive orders will ensure counterterrorism intelligence and warning assets are better allocated and more tightly coordinated, leading to improved intelligence for homeland security.

Over the past seven years, the FBI has developed its intelligence capabilities and improved its ability to protect the American people from threats to national security. It has built on its established capacity to collect information and enhanced its ability to analyze, disseminate and utilize intelligence. The percentage of the FBI's finished intelligence reports that were responsive to National Intelligence Priority Framework topics (which is a measure of how responsive the program is to the U.S. Intelligence Community's collection requirements) increased from 79 percent in 2005 to 92 percent in 2007. In 2007, 33 percent of human sources that the FBI obtained information from reported on Tier 1 threat groups, which is composed of entities with high intentions to harm the homeland and moderate or strong links with al-Qa'ida. Furthermore, the FBI's Terrorist Screening Center has significantly increase the number of positive encounters (database hits) with subjects through multiple Federal screening processes from approximately 5,300 hits in 2004 to over 21,000 in 2007.

The President's 2009 Budget supports the FBI's priorities and its continuing transformation by providing the resources needed to enhance its national security capabilities and improve supporting information technology and infrastructure. These initiatives will increase the number of agents and specialists working national security cases; enhance intelligence collection, systems, and training; improve information technology (IT) systems that reduce paperwork and facilitate information sharing; and expand partnerships with Federal, state, local and foreign agencies, as well as the private sector. Among the intelligence-related enhancements in the 2009 budget are $26 million for the confidential human source validation program, $25 million for foreign language translation programs and $10 million for technical collections.

As a result of the Department of Homeland Security's 2006 reorganization (Second Stage Review), a new Office of Intelligence and Analysis (I&A) was established to strengthen intelligence functions and information sharing within DHS. I&A gathers information to analyze terrorist threats to critical infrastructure, transportation systems, or other targets inside the homeland. Led by the DHS Chief Intelligence Officer reporting directly to the Secretary, this office not only relies on personnel from the former Information Analysis and Infrastructure Protection Directorate, but also draws on the expertise of other DHS components with information collection and analytical capabilities. For example, improved coordination and information sharing between border agents, air marshals, and intelligence analysts deepens the Department's understanding of terrorist threats. By maintaining and expanding its partnership with the NCTC, DHS will better coordinate its activities with other members within the intelligence community and the DNI.

I&A also serves as the focal point for disseminating homeland security information to State and local entities. For example, I&A is connected to homeland security directors and intelligence analysts of States, counties, and territories through the Homeland Security Information Network (HSIN) and it is deploying the Homeland Security Data Network (HSDN) to them as well, with over 18 State and Local Fusion Centers already able to access DHS secret-level classified systems through HSDN. All 50 States and major urban areas are connected to HSIN, and it is being rolled out to major counties as well. Furthermore, in recognition of the limitations of virtual interactions through electronic communications networks, beginning in 2006, I&A has begun deploying liaisons and intelligence analysts to State and Local Intelligence Fusion Centers across the Nation to improve the flow and quality of homeland security information to State, local and private sector partners and ensure a more accurate situational awareness for DHS and its Federal partners. In 2007, DHS disseminated a total of 355 intelligence products to its Federal, State, local, tribal, and private sector partners.

Border and Transportation Security

This mission area covers activities to protect border and transportation systems, such as screening airport passengers, detecting dangerous materials at ports overseas and at U.S. ports-of-entry, and patrolling our coasts and the land between ports-of-entry. The majority of funding in this mission area ($23 billion, or 89 percent, in 2009) is in DHS, largely for the U.S. Customs and Border Protection (CBP), the Transportation Security Administration (TSA), and the U.S Coast Guard. Other DHS bureaus and other Federal Departments, such as the Departments of State and Justice, also play a significant role. The President's 2009 request would increase funding for border and transportation security activities by 15.4 percent over the 2008 level.

Securing our borders and transportation systems is a complex task. Security enhancements in one area may make another avenue more attractive to terrorists. Therefore, our border and transportation security strategy aims to make the U.S. borders "smarter"—targeting layered resources toward the highest risks and sharing information so that frontline personnel can stay ahead of potential adversaries—while facilitating the flow of legitimate visitors and commerce. The creation of DHS allowed for unification of the Federal Government's major border and transportation security resources, which facilitates the integration of risk targeting systems and ensures greater accountability in border and transportation security. Rather than having separate systems for managing goods, people, and agricultural products, one agency is now accountable for ensuring that there is one cohesive border management system.

The 2009 Budget provides approximately $9.5 billion for Customs and Border Protection (CBP) including nearly $500 million in funding for 2,200 new Border Patrol agents. The President has committed to more than doubling the size of the Border Patrol to 18,300 agents before he leaves office and obtaining funding for an additional 1,700 by the end of 2009. At the start of the President's administration, there were approximately 9,000 Border Patrol agents.

To further gain control of our borders, the Budget also continues funding for technology and infrastructure along the border. In September of 2006, DHS awarded a contract to implement the technological and infrastructure component of its Secure Border Initiative (SBI) effort, SBInet. SBInet will concentrate on using proven, technology to significantly improve the availability of information and tools to Border Patrol agents so they can better detect, identify, classify and confront illegal border activity by those who pose a threat to the United States. The Budget includes $775 million for this priority. This investment will support smarter and more secure borders.

The Administration has effectively ended the practice of "catch and release" along the northern and southern borders. Non-Mexican illegal aliens apprehended at the border are now detained and then returned to their home countries as quickly as possible and all non-criminal Mexican illegal aliens apprehended are returned to Mexico immediately. The 2009 Budget includes $2.6 billion in detention and removal resources to continue this success and supports a total of 33,000 detention beds across the country to house illegal aliens apprehended by DHS.

To improve coordination and provide assistance to State and local law enforcement officials, the Budget will expand a successful Federal/State and local partnership—the 287(g) program, which provides State/local law enforcement officials with guidance and training in immigration law, subject to the direction of the Secretary of Homeland Security. The 2009 Budget includes an increase of $12 million for the 287(g) program and the Law Enforcement Support Center, including the training of State and local law enforcement officers, detention beds for apprehended illegal aliens, and personnel to assist state and local law enforcement when they encounter aliens.

Key to the Federal Government's screening of international visitors is the US-VISIT program, which is designed to expedite the clearance of legitimate travelers while identifying and denying clearance to those who may intend harm. US-VISIT previously collected two digital fingerprints and a digital photograph of all foreign visitors entering the United States. In 2007,

Table 3–4. BORDER AND TRANSPORTATION SECURITY FUNDING

(Budget authority, in millions of dollars)

Agency	2007 Enacted	2007 Supplemental/ Emergency	2008 Enacted	2008 Supplemental/ Emergency	2009 Request
Department of Agriculture	214.2	......	244.1	......	255.1
Department of Commerce	1.5	......	1.6	......	1.8
Department of Homeland Security	17,823.7	2,253.6	20,004.5	2,511.7	22,970.8
Department of Justice	20.6	......	4.5	106.0	4.6
Department of State	1,190.3	......	1,901.8	......	2,395.5
Department of Transportation	14.6	......	15.3	......	10.7
General Services Administration	100.4	......	115.0	225.0	74.0
Total, Border and Transportation Security	**19,365.3**	**2,253.6**	**22,286.8**	**2,842.7**	**25,712.5**

the number of biometric watch list hits for travelers processed at U.S. ports of entry exceeded 6,000, and the number of hits for visa applicants at consular offices exceeded 4,000. In November 2007, US-VISIT introduced technology to collect 10 fingerprints from arriving foreign visitors with the plan to roll-out 10-print collection to 8 more ports soon. In order to ensure that US-VISIT has full coverage of all potential visitors to the United States, all U.S. ports of entry will transition to collecting 10 fingerprints by the end of 2008. The 2009 Budget includes $390 million to support the increased system infrastructure and continue the progress toward interoperability with the FBI's fingerprint system, the Integrated Automated Fingerprint Identification System (IAFIS).

In order to further improve aviation security, in 2009, the Administration will devote nearly $6.0 billion to the multi-layered, risk-based aviation security system, including: $3 billion for over 48,000 Transportation Security Officers and technologies to screen passengers and their baggage for weapons and explosives. TSA will continue to provide specialized training in the detection of suspicious behaviors, fraudulent documents, and improvised explosive devices, $131 million for enhancements at passenger checkpoints to improve the detection of prohibited items, especially weapons and explosives, through the use of additional sensors such as whole body imaging, liquid bottle scanners, automated explosive sampling, and cast and prosthesis scanners; and nearly $100 million for air cargo security inspectors, canine teams, and the Certified Shipper Program to achieve 100 percent screening of passenger air cargo in 2010.

The Budget will also recapitalize checked baggage screening devices and accelerate deployment of inline systems that will increase baggage throughput by up to 300 percent. The President's Budget proposes a temporary, four-year surcharge on the passenger security fee of $0.50 per enplanement with a maximum increase of $1.00 per one-way trip. The additional fee collections of $426 million would be deposited in the mandatory Aviation Security Capital Fund to accelerate the deployment of optimal checked baggage screening systems and address the need to recapitalize existing equipment deployed immediately after September 11, 2001.

In the area of surface transportation security, TSA assessed approximately 37 percent of national critical surface transportation assets or systems in pipeline, maritime, mass transit, rail, highway, motor carrier, and postal shipping sectors in 2007 and continues to provide assistance to the Federal Emergency Management Agency (FEMA) in its review of infrastructure protection grant applications. In 2009, TSA will devote over $375 million for surface transportation security, including funding for nearly 100 inspectors to conduct risk-based assessments in the largest mass transit and rail systems.

Safeguarding our seaports is critical since terrorists may seek to use them to enter the country or introduce weapons or other dangerous materials. With 95 percent of all U.S. cargo passing through the Nation's 361 ports, a terrorist attack on a major seaport could slow the movement of goods and be economically devastating to the nation. The Maritime Transportation Security Act (MTSA) and its implementing regulations, issued by DHS in October 2003, require ports, vessels, and facilities to conduct security assessments. In 2009, the Coast Guard will continue to ensure compliance with MTSA port and vessel security standards and regulations. The 2009 Budget provides nearly $3 billion for port security across DHS, primarily for Coast Guard port security activities such as Maritime Safety and Security Teams and harbor patrols. In addition, the Coast Guard's budget funds operations to strengthen intelligence collection and surveillance capabilities in the maritime environment, both of which contribute to the broader Coast Guard effort to enhance Maritime Domain Awareness. In 2007, Congress passed P.L. 109–347, the SAFE Port Act, which requires enhanced screening of cargo bound for the Unites States, among other port security measures. In addition, port operators are eligible for grants to fund security enhancements under DHS' Infrastructure Protection Program (IPP) which falls under the Infrastructure Protection mission area.

The Department of State's Bureau of Consular Affairs is the second largest contributor to border and transportation security. The Department's Border Security Program includes visa, passport, American Citizen Services and International Adoption programs. For foreign visitors that require a visa, the Department of State collects the visitor's biometric and biographic data, which is then checked against U.S. government databases, thereby improving the ability to make a visa determination. When the visitor arrives in the United States, US-VISIT procedures allow DHS to determine whether the person applying for entry is the same person who was issued the visa by the Department of State. This and additional database checks improve the ability of DHS to make admissibility decisions.

In addition, the Department of State will continue to respond to demand for secure travel documents that will be required by the Western Hemisphere Travel Initiative. Under this initiative, United States citizens and foreign visitors traveling to and from the Caribbean, Bermuda, Panama, Canada or Mexico will be required to have a passport or standardized travel card that establishes the bearer's identity and nationality to enter or re-enter the United States. The initiative will improve security at our borders by standardizing entry and exit information and increasing the ability of Government agencies to work together.

Furthermore, the President's 2009 request significantly increases funding for the Department of State's border security program to Mexico for the purchase of x-ray systems to inspect trucks and trains, a mobile x-ray van, patrol vehicles, cameras, fences, and training and systems support to Mexican customs and immigration officials.

Domestic Counterterrorism

Funding in the Domestic Counterterrorism mission area covers Federal and Federally-supported efforts to identify, thwart, and prosecute terrorists in the United States. The largest contributors to the domestic counterterrorism mission are law enforcement organizations: the DOJ (largely for the FBI) and DHS (largely for ICE), accounting for 52.7 and 45.5 percent of funding for 2009, respectively.

Table 3–5. DOMESTIC COUNTERRORISM FUNDING

(Budget authority, in millions of dollars)

Agency	2007 Enacted	2007 Supplemental/ Emergency	2008 Enacted	2008 Supplemental/ Emergency	2009 Request
Department of Homeland Security	2,461.1	27.0	2,220.2	68.0	2,454.3
Department of Interior	0.3	....	0.2	....	0.2
Department of Justice	2,469.4	195.8	2,590.9	86.7	2,839.4
Department of Transportation	20.0	....	23.0	....	29.0
Department of the Treasury	74.4	....	62.4	....	69.8
Social Security Administration	1.4	....	0.2	....	0.2
Total, Domestic Counterterrorism	**5,026.6**	**222.8**	**4,896.8**	**154.7**	**5,392.9**

Since the attacks of September 11th, preventing and interdicting terrorist activity within the United States has become a priority for law enforcement at all levels of government. The major requirements addressed in the domestic counterterrorism mission area include:

- Developing a proactive law enforcement capability to prevent terrorist attacks;
- Apprehending potential terrorists; and
- Improving law enforcement cooperation and information sharing to enhance domestic counterterrorism efforts across all levels of government.

The President's 2009 Budget supports the FBI's top strategic priority: to protect the United States from terrorist attacks. FBI continues to build its counterterrorism capabilities post-9/11. Over the past seven years, FBI has shifted resources to counterterrorism from lower priority programs, hired and trained additional field investigators, enhanced science and technology capabilities, and strengthened headquarters oversight of the counterterrorism program. In 2007, the FBI reported over 3,600 State and local law enforcement participants in its Joint Terrorism Task Forces that are found all across the nation. Overall, FBI resources in the domestic counterterrorism category have increased from $0.9 billion in 2002 to $2 billion in 2009. Among the largest 2009 initiatives for enhancing counterterrorism capabilities are $28 million for national security field investigations, $28 million for surveillance operations, and $16 million for the Weapons of Mass Destruction Directorate.

ICE works to deter and dismantle terrorist groups, individuals, and companies involved in the illegal procurement and movement of weapons of mass destruction and their materials and components. ICE National Security Investigations personnel work closely with the Federal Bureau of Investigation's Joint Terrorism Task Forces to utilize the collective resources of the participating agencies for the prevention, deterrence, and investigation of terrorism and related activities occurring in or affecting the United States.

Protecting Critical Infrastructure and Key Assets

Funding in the Protecting Critical Infrastructure and Key Assets mission area captures the efforts of the U.S. Government to secure the Nation's infrastructure, including information infrastructure, from terrorist attacks. Protecting the Nation's critical infrastructure and key assets is a complex challenge for two reasons: (1) the diversity of infrastructure and (2) the high level of private ownership (85 percent) of the Nation's critical infrastructure and key assets. DOD continues to report the largest share of funding in this category for 2009 ($12 billion, or 59.8 percent), which includes programs focusing on physical security and improving the military's ability to prevent or mitigate the consequences of attacks against departmental personnel and facilities. DHS has overall responsibility for prioritizing and executing infrastructure protection activities at the national level and accounts for $3.8 billion (18.7 percent) of 2009 funding. In addition, a total of 25 other agencies report funding to protect their own assets and work with States, localities, and the private sector to reduce vulnerabilities in their areas of expertise. The President's 2009 request increases funding for activities to protect critical infrastructure and key assets by $238 million (1.2 percent) over the 2008 level.

Securing America's critical infrastructure and key assets is a complex task. The major requirements include:

- Unifying disparate efforts to protect critical infrastructure across the Federal Government, and with State, local, and private stakeholders;
- Building and maintaining an accurate assessment of America's critical infrastructure and key assets and prioritizing protective action based on risk;

Table 3–6. PROTECTING CRITICAL INFRASTRUCTURE AND KEY ASSETS FUNDING

(Budget authority, in millions of dollars)

Agency	2007 Enacted	2007 Supplemental/ Emergency	2008 Enacted	2008 Supplemental/ Emergency	2009 Request
Department of Agriculture	34.2	....	39.2	....	59.3
Department of Defense	11,254.0	....	12,126.8	....	12,058.3
Department of Energy	1,537.6	....	1,604.4	....	1,626.0
Department of Health and Human Services	185.4	....	192.4	....	199.6
Department of Homeland Security	3,107.3	222.0	3,840.4	....	3,768.4
Department of Justice	545.0	6.5	409.4	15.8	571.4
Department of Transportation	155.5	....	149.3	....	162.7
Department of Veterans Affairs	217.7	....	216.3	....	277.4
National Aeronautics and Space Administration	199.2	....	205.2	....	203.0
National Science Foundation	357.4	....	348.9	....	364.0
Social Security Administration	191.9	....	211.5	....	220.3
Other Agencies	603.0	....	582.3	....	654.1
Total, Protecting Critical Infrastructure and Key Assets	**18,388.2**	**228.5**	**19,926.1**	**15.8**	**20,164.5**

- Enabling effective partnerships to protect critical infrastructure; and
- Reducing threats and vulnerabilities in cyberspace.

Homeland Security Presidential Directive 7 (HSPD-7), signed in December 2003, established a national policy to protect critical infrastructure and key resources from attack, to ensure the delivery of essential goods and services, and to maintain public safety and security. Under HSPD-7, DHS is responsible for coordinating Federal critical infrastructure programs and working closely with State and local governments and the private sector to aligning protection efforts. To provide the overall framework to integrate various critical infrastructure protection activities, DHS developed the National Infrastructure Protection Plan (NIPP). The plan's risk-management approach provides the framework for government and industry to work together on common protective goals, while focusing resources where they are needed the most.

Recognizing that each infrastructure sector possesses it own unique characteristics, HSPD-7 also designated sector-specific agencies to coordinate infrastructure protection efforts within each sector. As a result, each of the 17 sectors developed a Sector Specific Plan (SSP) as part of the NIPP process. These plans build on the base NIPP plan and establish partnership models through which public and private sector security partners will work together to collect infrastructure information, prioritize assets and protective programs, and develop metrics to inform future initiatives.

DHS recently reorganized and combined its preparedness and response functions to fulfill requirements of the 2007 Homeland Security Appropriations Act. DHS also created the National Protection and Programs Directorate (NPPD), which includes offices that were omitted from the transfer to FEMA by statute. These offices, which focus on physical and cyber infrastructure protection, as well as other major security initiatives, will be part of the newly created NPPD.

The Office of Infrastructure Protection (IP) within NPPD oversees NIPP implementation and is responsible for managing and prioritizing infrastructure protection at the national level. IP conducts site visits and assessments each year on critical infrastructure and provides sector-specific threat and vulnerability information to the private sector in partnership with DHS Intelligence and Analysis. In 2007, IP also took on the responsibility for implementing DHS' chemical facility security regulations, which ensure our nation's chemical facilities meet risk-based performance standards for security. The 2009 Budget provides $273 million for these activities. In conjunction with funding for the Office of Infrastructure Protection, the Infrastructure Protection Program (IPP) within FEMA consists of five grant programs funding security enhancement projects in and around transportation assets and other critical infrastructure sites. Awarded through the Office of Grants and Training, IPP grants supplement State and local infrastructure security efforts, especially detection and prevention investments.

Cyberspace security is a key element of infrastructure protection. The consequences of a cyber attack could cascade across the economy, imperiling public safety and national security. To address this threat, DHS established the National Cyber Security Division (NCSD) in 2003—in response to the President's *National Strategy to Secure Cyberspace*—in order to identify, analyze and reduce cyber threats and vulnerabilities, coordinate incident response, and provide technical assistance. NCSD works collaboratively with public, private, and international entities to secure cyberspace and America's cyber assets. NCSD also manages the U.S. Computer Emergency Response Team (US-CERT), which coordinates defense against and responds to cyber attacks across the nation. US-CERT deploys "Einstein" intrusion detection sensors on Federal networks and operates a cyber watch, warning, and analysis center to provide real-time alerts to Federal departments and agencies, State and local governments, and the private sector. The 2009 budget expands US-CERT analytic capabilities and defensive measures to ensure information on our Federal networks is secure. To support these critical preparedness activities, the Budget includes $294 million for the NCSD in 2009. Moreover, the Budget includes an additional $39 million for the FBI's cyber security activities in 2009.

Defending Against Catastrophic Threats

The Defending Against Catastrophic Threats mission area covers activities including research, development, and deployment of technologies, systems, and medical measures to detect and counter the threat of chemical, biological, radiological, and nuclear weapons. The agencies with the most significant resources to help develop and field technologies to counter CBRN threats are: (1) DOD ($5 billion, or 55.5 percent, of the 2009 total); (2) HHS, largely for research at the National Institutes of Health (NIH) and for advanced development of medical countermeasures ($2.2 billion, or 24.5 percent, of the 2009 total); and (3) DHS ($1.2 billion, or 13.7 percent, of the 2009 total). The President's 2009 request would increase funding for activities to defend against catastrophic threats by $777 million (8.6 percent) over the 2008 level.

Table 3–7. DEFENDING AGAINST CATASTROPHIC THREATS FUNDING

(Budget authority, in millions of dollars)

Agency	2007 Enacted	2007 Supplemental/ Emergency	2008 Enacted	2008 Supplemental/ Emergency	2009 Request
Department of Agriculture	233.0	......	215.6	......	296.2
Department of Commerce	88.7	......	85.0	......	96.0
Department of Defense	4,889.8	......	4,754.4	......	5,026.9
Department of Energy	62.1	......	63.5	......	89.9
Department of Health and Human Services	2,022.2	......	2,008.3	......	2,219.1
Department of Homeland Security	1,204.4	148.0	1,056.2	......	1,236.2
Department of Justice	42.1	1.9	45.2	2.0	40.3
Department of the Treasury	0.9	......	1.8	......	2.4
National Science Foundation	28.0	......	25.0	......	15.0
Nuclear Regulatory Commission	24.7	......	23.2	......	32.8
Total, Defending Against Catastrophic Threats	**8,595.9**	**149.9**	**8,278.1**	**2.0**	**9,054.8**
Plus BioShield	......	......	......	......	2,175.0
Total, Defending Against Catastrophic Threats including BioShield	**8,595.9**	**149.9**	**8,278.1**	**2.0**	**11,229.8**

The major requirements addressed in this mission area include:

- Preventing terrorist use of CBRN weapons through detection systems and procedures, and improving decontamination techniques; and
- Developing countermeasures, such as vaccines and other drugs to protect the public from the threat of a CBRN attack or other public health emergency.

To protect against a nuclear or radiological weapon entering the country, the Domestic Nuclear Detection Office (DNDO) was created in 2005 within DHS to coordinate the Nation's nuclear detection efforts. DNDO, together with the Departments of State, Energy, Defense, and Justice, is responsible for developing and deploying a comprehensive system to detect and report any attempt to import a nuclear explosive device or radiological material into the United States. With an additional 154 radiation portal monitors for screening cargo deployed to the Nation's largest seaports, DNDO, in 2007, screened over 94% of incoming cargo containers (by volume) to the United States for dangerous radioactive materials. DNDO is also responsible for establishing response protocols to ensure that the detection of a nuclear explosive device or radiological material leads to timely and effective action by military, law enforcement, emergency response, and other appropriate Government assets. The 2009 Budget includes $564 million for DNDO, a 16 percent increase from the 2008 level.

In 2009, DNDO will invest $113 million in transformational research and development aimed at enhancing our ability to detect, identify, and attribute nuclear and radiological materials. This research looks beyond current capabilities and seeks to find new scientific tools and methodologies that may prove useful in broad efforts to focus the Nation's resources toward countering the threat of nuclear and radiological devices. DNDO's budget also includes $170 million for the deployment of both fixed and mobile radiation portal monitors at strategic points of entry throughout the country. An additional $20 million will be used to improve the detection of radiological and nuclear materials in and around the Nation's major urban areas.

Together with overseas non-proliferation efforts led by the Department of State, and overseas detection capabilities managed by the Department of Energy, these programs seek to create a seamless approach toward preventing terrorists anywhere in the world from acquiring, transporting, or introducing these materials into the United States.

To counter the threat of CBRN weapons, the Budget continues to invest in efforts to decrease the time between an attack and implementation of Federal, State and local response protocols. Unlike an attack with conventional weapons, a CBRN attack may not be immediately apparent. Working to ensure earlier detection and characterization of an attack helps protect and save lives. DHS will therefore continue to support efforts such as the BioWatch environmental monitoring program, which samples and analyzes air in over 30 metropolitan areas to continually check for dangerous biological agents. The program is designed to provide early warning of a large-scale biological weapon attack, thereby allowing the distribution of life-saving treatment and preventative measures before the development of serious and widespread illnesses.

A key element in defending against catastrophic threats is developing and maintaining adequate countermeasures for a CBRN attack. This not only means stockpiling countermeasures that are currently available, but developing new countermeasures for agents that currently have none, and next-generation countermeasures that are safer and more effective than those that presently exist. The Budget continues HHS' investment in developing medical countermeasures to CBRN threats with $2.1 billion in funding, which is more than $2.0 billion over the level prior to 9/11 (this includes funding for programs focused on chemical and radiological and nuclear countermeasures referenced below). For 2009, the Budget includes $275 million for the advanced development of medical countermeasures against threats of bioterrorism and next generation ventilators. Large investments in basic research of medical countermeasures at HHS have helped create multiple promising products to protect the public against the threat of a terrorist attack. These investments will accelerate the development of these products to help Project BioShield acquire them more quickly for inclusion in the Strategic National Stockpile.

HHS will also continue to improve human health surveillance with $100 million dedicated to biosurveilance activities, including the BioSense program (allowing local, State, and national public health authorities to monitor "real-time" trends in data from hospitals, emergency departments, and laboratories to identify and characterize potential human health threats), and augmenting the number and quality of border health and quarantine stations. HHS will enhance its internal biodefense and emergency preparedness activities with $131 million, to include an expansion of the laboratory response network capability and capacity to test for radiological and nuclear material exposure. The Food and Drug Administration and the Department of Agriculture will also conduct surveillance to ensure the security of the food supply. Information collected from these programs will be disseminated to the National Biosurveillaince Integration Center at DHS.

DOD defends the nation against catastrophic threats by undertaking long-term research on chemical and biological threats and by developing strategies to counter the risk of such attacks. DOD's efforts in maritime defense and interdiction provide early detection and response to possible CBRN threats. DOD also conducts anti-terrorism planning to defend against a potential CBRN or other terrorist attack against a military base or installment. Finally, the U.S. Northern Command, the military command responsible for DOD's homeland defense activities, is included in this category.

Emergency Preparedness and Response

The Emergency Preparedness and Response mission area covers agency efforts to bolster capabilities nationwide to prevent and protect against terrorist attacks, and also minimize the damage from attacks through effective response and recovery. The mission area encompasses a broad range of agency incident manage-

Table 3–8. EMERGENCY PREPAREDNESS AND RESPONSE FUNDING

(Budget authority, in millions of dollars)

Agency	2007 Enacted	2007 Supplemental/ Emergency	2008 Enacted	2008 Supplemental/ Emergency	2009 Request
Department of Defense	394.5	.....	493.3	.....	560.7
Department of Energy	119.5	.....	160.8	.....	227.0
Department of Health and Human Services	2,119.5	.....	2,099.9	.....	2,038.0
Department of Homeland Security	1,826.6	37.0	2,425.4	60.0	1,788.5
Other Agencies	362.2	.....	372.0	.....	398.8
Total, Emergency Preparedness and Response	**4,822.2**	**37.0**	**5,551.4**	**60.0**	**5,013.1**
Plus Mandatory PSIC Grants	1,000.0	.....	.....	.....	.....
Total, Emergency Preparedness and Response, including Mandatory Communications Interoperability Grants	**5,822.2**	**37.0**	**5,551.4**	**60.0**	**5,013.1**

ment activities, as well as grants and other assistance to States and localities for first responder preparedness capabilities. Response to natural disasters and other major incidents, including catastrophic natural events such as Hurricane Katrina and chemical or oil spills, do not directly fall within the definition of a homeland security activity for funding purposes, as defined by Section 889 of the Homeland Security Act of 2002. However, in preparing for terrorism-related threats, many of the activities within this mission area also support preparedness for catastrophic natural and man-made disasters. Additionally, lessons learned from the response to Hurricane Katrina have been used to revise and strengthen catastrophic response planning in line with the National Response Framework.

HHS, the largest participant in this mission area ($2 billion, or 40.7 percent, in 2009), assists States, localities and hospitals to upgrade public health capacity, maintains a national stockpile of medicines and vaccines for use following an event, and supports the National Disaster Medical System. DHS maintains the second largest share of funding in this category ($1.8 billion, or 35.7 percent, for 2009), mainly for preparedness grant assistance to State and local first responders. A total of 23 other agencies include emergency preparedness and response funding. A number of agencies maintain specialized response assets that may be called upon in select circumstances, and others report only funding for their agency's internal preparedness capability. The major requirements addressed in this mission area include:

- Establishing measurable goals for national preparedness and ensuring that Federal funding supports these goals;
- Ensuring that Federal programs to train and equip States and localities meet the National Preparedness Guidelines in a coordinated and complementary manner;
- Encouraging standardization and interoperability of first responder equipment, especially for communications;
- Building a national training, exercise, and evaluation system;
- Implementing the National Incident Management System;
- Preparing health care providers for a mass casualty event; and
- Augmenting America's pharmaceutical and vaccine stockpiles.

Many of the key elements of the national emergency response system are already in place. During 2004, separate Federal response plans were integrated into a single all-hazards National Response Plan. The National Incident Management System was simultaneously developed to integrate a standardized Incident Command System throughout Federal, State and local response agencies and organizations. Recently, the National Response Plan was substantially revised as the National Response Framework to provide clear national response doctrine and incorporate lessons learned from Hurricane Katrina. Additionally, the publication of the National Preparedness Guidelines provides a consistent framework for guiding Federal, State, and local investments. In order to ensure that these investments translate into improvements in preparedness, we must continue to identify capability gaps and improve prevention, protection, response and recovery capabilities at all levels of government. A related challenge is ensuring that investments in State and local preparedness are focused on building and enhancing national capabilities, and not simply supplanting day-to-day operating budgets. DHS is leading an interagency effort to better match Federal resources with achieving national target capabilities.

From 2001 through 2008, the Federal Government has allocated over $30 billion in State and local terrorism preparedness funding from the Departments of Homeland Security, Health and Human Services, and Justice, and the Environmental Protection Agency, increasing spending from an annual level of approximately $350 million in 2001 to over $3.1 billion in the 2009 request. The funding growth has been directed to Federal programs and grant assistance which support State and local preparedness and response activities, including equipping, training and exercising first responders, and preparing the public health infrastructure, for a range of terrorist threats. In addition, to supplement available State and local assistance for public safety communications interoperability, the Department of Commerce, in consultation with DHS, awarded up to $1 billion to qualified applicants for this purpose in 2007 from anticipated spectrum auction receipts. The Federal Government has taken steps to rationalize and simplify the distribution of State and local assistance; better target funds based on risk and effectiveness; and develop and implement the seven national priorities and 37 target capabilities identified in the National Preparedness Guidelines. As a result, the percent of participating State and local homeland security agencies and major urban area grant recipients reporting measurable progress made towards identified goals and objectives to prevent and respond to terrorist attacks increased to approximately 67 percent and 64 percent, respectively, in 2007.

The 2009 Budget provides over $150 million for DHS programs which train and exercise first responders in preparation for catastrophic events including the National Exercise Program, the National Domestic Preparedness Consortium, the Center for Domestic Preparedness, the U.S. Fire Administration, and the Emergency Management Institute. In 2007, the Federal Emergency Management Agency (FEMA) within DHS reported that 72 percent of assisted jurisdictions demonstrated acceptable performance on applicable critical tasks in exercises using approved scenarios. To continue this positive trend, the 2009 Budget also provides grants which support coordinated terrorism preparedness training, exercises, and equipment for State and local responders across the various responder disciplines. The 2009 request includes nearly $1.5 billion for terrorism preparedness grants to be administered by FEMA and proposes to continue current progress on the grant allocation process to better address threats and needs. The Budget also supports a range of Federal response capabilities, including providing $110 million for the Department of Energy's Nuclear Emergency Support Team, $20 million for FEMA's Urban Search and Rescue teams, $53 million for the National Disaster Medical System, and other emergency response, management, and operations assets. The capabilities of these teams range from providing radiological assistance in support of State and local agencies to responding to major incidents worldwide.

In order to ensure that the nation is prepared for dealing with a biological attack, the Administration continues to make significant investments in medical countermeasures through Project BioShield.[4] While the stockpiling of medical countermeasures is the primary goal, BioShield is also designed to stimulate the development of the next generation of countermeasures by allowing the Federal Government to buy critically needed vaccines and medications for biodefense as soon as experts agree that they are safe and effective enough to be added to the Strategic National Stockpile. As a result, this program also provides an incentive for the development and manufacturing of advanced countermeasures, ensuring that new and improved countermeasures will be available in the future. The Budget includes $571 million to maintain and augment this supply of vaccines and other countermeasures that can be made available within 12 hours in the event of a terrorist attack or other public health emergency. This includes funding for storage and maintenance of products purchased through BioShield.

Finally, HHS has the lead role in preparing public health providers for catastrophic terrorism. In addition to providing additional funding to expand HHS's public health and medical response capabilities, including disaster medical assistance, the 2009 Budget also provides nearly $362 million to continue improvements for hospital infrastructure and $571 million for upgrades to State and local public health capacity. In 2009, HHS intends to align the grant cycles with the States' fiscal year. Taking this one-time change into account, the 2009 funding is a $25 million increase over 2008. This investment will bring the total assistance provided by HHS to States, local governments and health care providers since 2001 to over $9 billion.

Non-Federal Expenditures[5]

State and local governments and private-sector firms also have devoted resources of their own to the task of defending against terrorist threats. Some of the additional spending has been of a one-time nature, such as investment in new security equipment and infrastructure; some additional spending has been ongoing, such as hiring more personnel, and increasing overtime for existing security personnel. In many cases, own-source spending has supplemented the resources provided by the Federal Government.

Many governments and businesses continue to place a high priority on and provide additional resources for security. On the other hand, many entities have not increased their spending. A 2004 survey conducted by the National Association of Counties found that as a result of the homeland security process of intergovernmental planning and funding, three out of four counties believed they were better prepared to respond to terrorist threats. Moreover, almost 40 percent of the surveyed counties had appropriated their own funds to assist with homeland security. Own-source resources supplemented funds provided by States and the Federal Government. However, the same survey revealed that 54 percent of counties had not used any of their own funds.[6]

There is also a diversity of responses in the businesses community. A 2003 survey conducted by the Conference Board showed that just over half of the companies reported that they had permanently increased security spending post-September 11, 2001. About 15 percent of the companies surveyed had increased their security spending by 20 percent or more. Large increases in spending were especially evident in critical industries, such as transportation, energy, financial services, media and telecommunications, information technology, and healthcare. However, about one-third of the surveyed companies reported that they had not increased their security spending after September 11th.[7] Given the difficulty of obtaining survey results that are representative of the entire universe of States, localities, and businesses, it is expected that there will be a wide range of estimates on non-Federal security spending for critical infrastructure protection.

Additional Tables

The tables in the Federal expenditures section above present data based on the President's policy for the 2008 Budget. The tables below present additional policy and baseline data, as directed by the Homeland Security Act of 2002.

[4] BioShield is a shared responsibility, joining the intelligence capabilities of DHS with the medical expertise of HHS.

[5] OMB does not collect detailed homeland security expenditure data from State, local, or private entities directly.

[6] Source: National Association of Counties, "Homeland Security Funding—2003 State Homeland Security Grants Programs I and II."

[7] Source: Conference Board, "Corporate Security Management" 2003.

Estimates by Agency:

Table 3–9. DISCRETIONARY FEE-FUNDED HOMELAND SECURITY ACTIVITIES BY AGENCY

(Budget authority, in millions of dollars)

Agency	2007 Enacted	2007 Supplemental/ Emergency	2008 Enacted	2008 Supplemental/ Emergency	2009 Request
Department of Energy	14.3	......	15.7	......	14.4
Department of Homeland Security	2,910.0	......	2,819.0	......	2,985.0
Department of State	1,166.7	......	1,878.9	......	1,959.0
General Services Administration	161.5	......	360.0	......	111.4
Social Security Administration8	193.3	......	212.4	......	221.3
Federal Communications Commission	2.3	......	2.3	......	2.3
Nuclear Regulatory Commission	72.0	......	43.0	......	46.0
Securities and Exchange Commission	14.3	......	16.4	......	15.9
Total, Discretionary Homeland Security Fee-Funded Activities	**4,534.4**	......	**5,347.7**	......	**5,355.3**

Table 3–10. MANDATORY HOMELAND SECURITY FUNDING BY AGENCY

(Budget authority, in millions of dollars)

Agency	2007 Enacted	2007 Supplemental/ Emergency	2008 Enacted	2008 Supplemental/ Emergency	2009 Request
Department of Agriculture	186.0	......	216.0	......	226.7
Department of Commerce	16.6	......	19.4	......	19.6
Department of Energy	12.0	......	13.0	......	12.0
Department of Health and Human Services	16.8	......	14.3	......	14.4
Department of Homeland Security	2,200.1	......	2,601.0	......	2,942.6
Department of Labor	3.9	......	8.0	......	8.6
Total, Homeland Security Mandatory Programs	**2,435.5**	......	**2,871.7**	......	**3,223.9**
Plus Mandatory PSIC Grants	1,000.0	......	......	......	......
Total, Homeland Security Mandatory Programs including Mandatory PSIC Grants	**3,435.5**	......	**2,871.7**	......	**3,223.9**

Table 3–11. BASELINE ESTIMATES—TOTAL HOMELAND SECURITY FUNDING BY AGENCY

(Budget authority, in millions of dollars)

Agency	2008 Enacted	Baseline				
		2009	2010	2011	2012	2013
Department of Agriculture	571	593	575	589	603	619
Department of Commerce	207	213	466	228	226	234
Department of Defense	17,375	17,773	18,173	18,577	18,991	19,417
Department of Education	27	28	28	29	29	30
Department of Energy	1,830	1,867	1,907	1,946	1,987	2,030
Department of Health and Human Services	4,300	4,399	4,493	4,595	4,697	4,798
Department of Homeland Security	32,661	33,756	34,727	35,803	36,901	38,039
Department of Housing and Urban Development	2	2	2	2	2	2
Department of the Interior	48	49	52	54	55	58
Department of Justice	3,417	3,545	3,661	3,781	3,900	4,034
Department of Labor	48	49	50	51	51	53
Department of State	1,962	2,001	2,041	2,082	2,124	2,166
Department of Transportation	206	215	223	231	240	249
Department of the Treasury	117	120	125	127	133	137
Department of Veterans Affairs	271	279	285	293	300	308
Corps of Engineers	42	43	44	45	45	46
Environmental Protection Agency	138	142	146	149	152	159
Executive Office of the President	20	20	22	22	22	23
General Services Administration	368	375	382	389	398	405
National Aeronautics and Space Administration	205	209	213	218	222	227
National Science Foundation	374	381	388	397	404	413
Office of Personnel Management	2	2	2	2	2	2
Social Security Administration	212	221	225	230	235	239
District of Columbia	3	3	3	3	3	3
Federal Communications Commission	2	2	2	2	2	2
Intelligence Community Management Account	122	124	127	129	132	135
National Archives and Records Administration	18	18	19	19	19	20
Nuclear Regulatory Commission	72	75	77	80	81	85
Securities and Exchange Commission	16	16	17	17	17	18
Smithsonian Institution	93	97	102	106	111	115
United States Holocaust Memorial Museum	8	8	8	8	9	9
Corporation for National and Community Service	....	....	....	....	....	....
Total, Homeland Security Budget Authority	**64,737**	**66,625**	**68,585**	**70,204**	**72,093**	**74,075**
Less Department of Defense	–17,375	–17,773	–18,173	–18,577	–18,991	–19,417
Non-Defense, Discretionary Homeland Security BA, excluding Bioshield [1]	**47,362**	**48,852**	**50,412**	**51,627**	**53,102**	**54,658**
Less Fee-Funded Homeland Security Programs	–5,338	–5,557	–5,669	–5,781	–5,899	–6,014
Less Mandatory Homeland Security Programs	–2,871	–2,799	–3,056	–2,910	–3,002	–3,102
Net Non-Defense, Discretionary Homeland Security BA, excluding Bioshield [1]	**39,153**	**40,496**	**41,687**	**42,936**	**44,201**	**45,542**
Plus BioShield	....	2,175	....	....	....	....
Net Non-Defense, Discretionary Homeland Security BA, including BioShield [1]	**39,153**	**42,671**	**41,687**	**42,936**	**44,201**	**45,542**
Obligations Limitations						
Department of Transportation Obligations Limitation	139	142	144	147	152	155

[1] The Deficit Reduction Act of 2005 appropriated $1 billion from anticipated spectrum auction receipts for the Department of Commerce, in consultation with the Department of Homeland Security, to make grants to public safety agencies for communications interoperability purposes. DHS received $1.57 billion in emergency funding for border security in 2007.

Estimates by Budget Function:

Table 3–12. HOMELAND SECURITY FUNDING BY BUDGET FUNCTION

(budget authority, in millions of dollars)

Budget Authority	2007 Enacted [1]	2008 Enacted	2009 Request
National Defense	20,710	21,893	22,154
International Affairs	1,241	1,962	2,465
General Science Space and Technology	1,489	1,332	1,398
Energy	131	125	135
Natural Resources and the Environment	307	278	328
Agriculture	521	539	659
Commerce and Housing Credit [1]	158	164	198
Transportation	9,425	10,038	10,811
Community and Regional Development	2,505	3,313	2,216
Education, Training, Employment and Social Services	191	165	176
Health	4,340	4,320	4,473
Medicare	15	14	19
Income Security	8	11	14
Social Security	193	212	221
Veterans Benefits and Services	260	271	348
Administration of Justice	17,421	18,870	19,729
General Government	907	1,196	967
Total, Homeland Security Budget Authority	**59,822**	**64,703**	**66,311**
Less National Defense, DoD	–16,538	–17,375	–17,647
Non-Defense Homeland Security BA, excluding Mandatory PSIC Grants and BioShield	**43,284**	**47,328**	**48,664**
Less Fee-Funded Homeland Security Programs	–4,433	–5,279	–5,282
Less Mandatory Homeland Security Programs	–2,435	–2,871	–3,225
Net Non-Defense, Discretionary Homeland Security BA, excluding Mandatory PSIC Grants and BioShield	**36,416**	**39,178**	**40,157**
Plus BioShield	....	....	2,175
Plus Mandatory PSIC Grants	1,000	....	....
Net Non-Defense, Discretionary Homeland Security BA, including Mandatory PSIC Grants and BioShield	**37,416**	**39,178**	**42,332**

[1] The Deficit Reduction Act of 2005 appropriated $1 billion from anticipated spectrum auction receipts for the Department of Commerce, in consultation with the Department of Homeland Security, to make grants to public safety agencies for communications interoperability purposes.

Table 3–13. BASELINE ESTIMATES—HOMELAND SECURITY FUNDING BY BUDGET FUNCTION

(Budget authority, in millions of dollars)

Budget Authority	2008 Enacted	Baseline				
		2009	2010	2011	2012	2013
National Defense	21,893	22,413	22,933	23,459	23,997	24,557
International Affairs	1,962	2,001	2,041	2,082	2,124	2,166
General Science Space and Technology	1,332	1,358	1,385	1,414	1,441	1,471
Energy	125	128	130	134	136	141
Natural Resources and the Environment	278	285	294	301	306	318
Agriculture	539	560	541	554	568	583
Commerce and Housing Credit	164	169	421	182	179	185
Transportation	10,038	10,329	10,601	10,944	11,295	11,655
Community and Regional Development	3,313	3,381	3,448	3,520	3,589	3,662
Education, Training, Employment and Social Services	165	170	176	182	188	195
Health	4,320	4,419	4,514	4,616	4,717	4,819
Medicare	14	15	15	16	17	17
Income Security	11	12	12	12	12	12
Social Security	212	221	225	230	235	239
Veterans Benefits and Services	271	279	285	293	300	308
Administration of Justice	18,904	19,679	20,334	21,015	21,714	22,450
General Government	1,196	1,206	1,230	1,250	1,275	1,297
Total, Homeland Security Budget Authority	**64,737**	**66,625**	**68,585**	**70,204**	**72,093**	**74,075**
Less National Defense, DoD	–17,375	–17,773	–18,173	–18,577	–18,991	–19,417
Non-Defense, Discretionary Homeland Security BA, excluding Bioshield	**47,362**	**48,852**	**50,412**	**51,627**	**53,102**	**54,658**
Less Fee-Funded Homeland Security Programs	–5,338	–5,557	–5,669	–5,781	–5,899	–6,014
Less Mandatory Homeland Security Programs	–2,871	–2,799	–3,056	–2,910	–3,002	–3,102
Net Non-Defense, Discretionary Homeland Security BA, excluding Bioshield	**39,153**	**40,496**	**41,687**	**42,936**	**44,201**	**45,542**
Plus BioShield	....	2,175	....	....	....	....
Net Non-Defense, Discretionary Homeland Security BA, including BioShield	**39,153**	**42,671**	**41,687**	**42,936**	**44,201**	**45,542**
Obligations Limitations						
Department of Transportation Obligations Limitation	139	142	144	147	152	155

Detailed Estimates by Budget Account:

An appendix of account-level funding estimates, organized by *National Strategy* mission area, is available on the *Analytical Perspectives* CD ROM.

4. STRENGTHENING FEDERAL STATISTICS

Federal statistical programs produce key information to inform public and private decision makers about a range of topics of interest, including the economy, the population, agriculture, crime, education, energy, the environment, health, science, and transportation. The ability of governments, businesses, and citizens to make appropriate decisions about budgets, employment, investments, taxes, and a host of other important matters depends critically on the ready availability of relevant, accurate, and timely Federal statistics.

The Federal statistical community remains on alert for opportunities to improve these measures of our Nation's performance. For example, during 2007, Federal statistical agencies (i) published prototype estimates of Gross Domestic Product by metropolitan area for 2001–2005, which can be used to determine the overall size and growth of metropolitan economies, to assess the impacts of natural or man-made disasters on cities, and to analyze comparative industrial growth across metropolitan America (Bureau of Economic Analysis); (ii) developed a website that presents recent trends in mortality in State prisons, local jails, and State juvenile correctional facilities (Bureau of Justice Statistics); (iii) expanded coverage of the Producer Price Index to over 70 percent of services output, by publishing new service sector indexes for management consulting, blood banks, computer training schools, and machinery and equipment repair (Bureau of Labor Statistics); (iv) developed an innovative software tool, called GeoMiler, to compute likely transportation routes more efficiently for the nearly 6 million freight shipments reported in the Commodity Flow Survey (Bureau of Transportation Statistics); (v) completed street features in the Decennial Census geographic database for 737 additional counties, bringing the total completed to about 90 percent of all 3,232 counties in the United States and Puerto Rico (Census Bureau); (vi) launched two new Internet gateways for State Energy Profiles and Country Energy Profiles (Energy Information Administration); (vii) enhanced representation of the Nation's socially disadvantaged and minority farm operators in the Census of Agriculture (National Agricultural Statistics Service); and (viii) offered significantly more timely access to National Health Interview Survey data on the Internet (National Center for Health Statistics).

For Federal statistical programs to benefit effectively their wide range of users, the underlying data systems must be viewed as credible. In order to foster this credibility, Federal statistical programs seek to adhere to high quality standards and to maintain integrity and efficiency in the production of data. As the collectors and providers of these basic statistics, the responsible agencies act as data stewards—balancing public and private decision makers' needs for information with legal and ethical obligations to minimize reporting burden, respect respondents' privacy, and protect the confidentiality of the data provided to the Government. This chapter discusses the development of standards that principal statistical programs use to assess their performance and presents highlights of their 2009 budget proposals.

Performance Standards

Statistical programs maintain the quality of their data or information products as well as their credibility by setting high performance standards for their activities. The statistical agencies and statistical units represented on the Interagency Council on Statistical Policy (ICSP) have collaborated on developing a set of common performance standards for use under the Government Performance and Results Act and in completing the Administration's Program Assessment Rating Tool (PART). Federal statistical agencies agreed that there are six conceptual dimensions within two general areas of focus that are key to measuring and monitoring statistical programs. The first area of focus is Product Quality, encompassing the traditional dimensions of relevance, accuracy, and timeliness. The second area of focus is Program Performance, encompassing the dimensions of cost, dissemination, and mission achievement.

Statistical agencies historically have focused on measuring performance in the area of product quality, especially dimensions of accuracy and timeliness that are most amenable to quantitative measurement. Relevance, also an accepted measure of quality, can be either a qualitative description of the usefulness of products or a quantitative measure such as a customer satisfaction score. Relevance is more difficult to measure, and the indicators that do exist are more varied.

Program performance standards form the basis for evaluating effectiveness. They address questions such as: Are taxpayer dollars being spent most effectively? Are products being made available to those who need them? Are agencies meeting their mission requirements or making it possible for other agencies to meet their missions? The indicators available to measure program performance for statistical activities were historically less well developed than those for product quality, but nearly all principal statistical agencies have now devel-

Chart 4-1. ICSP Statistical Quality and Program Performance Dimensions

Dimension	BEA	BJS	BLS	BTS	Census	EIA	ERS	NASS	NCES	NCHS	ORES	SOI	SRS
Product Quality													
Relevance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Accuracy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Timeliness	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Program Performance													
Cost	✓	✓	✓	✓	✓	✓	✓	✓	✓	P	✓	✓	✓
Dissemination	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mission Achievement	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓ Indicator Available P Indicator Planned

Description of Dimensions

Product Quality

Relevance: Qualitative or quantitative descriptions of the degree to which products and services are useful to users and responsive to users' needs.

Accuracy: Qualitative or quantitative measure of important features of correctness, validity, and reliability of data and information products measured as degree of closeness to target values.

Timeliness: Qualitative or quantitative measure of the timing of information releases.

Program Performance

Cost: Quantitative measure of the dollar amount used to produce data products and services.

Dissemination: Qualitative or quantitative information on the availability, accessibility, and distribution of products and services.

Mission Achievement: Qualitative or quantitative information about the effect of, or satisfaction with, statistical programs.

Key to Statistical Agencies

BEA = Bureau of Economic Analysis, Department of Commerce
BJS = Bureau of Justice Statistics, Department of Justice
BLS = Bureau of Labor Statistics, Department of Labor
BTS = Bureau of Transportation Statistics, Department of Transportation
Census = Census Bureau, Department of Commerce
EIA = Energy Information Administration, Department of Energy
ERS = Economic Research Service, Department of Agriculture
NASS = National Agricultural Statistics Service, Department of Agriculture
NCES = National Center for Education Statistics, Department of Education
NCHS = National Center for Health Statistics, Department of Health and Human Services
ORES = Office of Research, Evaluation, and Statistics, Social Security Administration
SOI = Statistics of Income, Internal Revenue Service, Department of the Treasury
SRS = Science Resources Statistics Division, National Science Foundation

oped and implemented a complete set of program performance standards.

Product quality and program performance standards are designed to serve as indicators when answering specific questions in the Administration's PART process. Chart 4–1 presents each principal Federal statistical agency's assessment of the status of its current and planned use of indicators on the six dimensions. With the exception of cost indicators, where one agency (NCHS) is still planning its measure, each ICSP agency has now developed performance measures for all six dimensions. Use of the indicators may be for internal management, strategic planning, or annual performance reporting. The dimensions shown in the chart reflect an overall set of indicators for statistical activities, but the specific measures vary among the individual programs depending on their unique characteristics and requirements. Annual performance reports and PARTs provide these specific measures, as well as additional information about performance goals and targets and whether a program is meeting, or making measurable progress toward meeting, its performance goals. The examples below illustrate different ways agencies track their performance on each dimension.

Product Quality: Statistical agencies agree that product quality encompasses many attributes, including (but not limited to) *relevance*, *accuracy,* and *timeliness*. The basic measures in this group relate to the quality of specific products, thereby providing actionable information to managers. These are "outcome-oriented" measures and are key to the usability of information products. Statistical agencies or units establish targets and monitor how well targets are met. In some sense, relevance relates to "doing the right things," while accuracy and timeliness relate to "doing things right."

Relevance: Qualitative or quantitative descriptions of the degree to which products and services are useful and responsive to users' needs. Relevance of data products and analytic reports may be monitored through a professional review process and ongoing contacts with data users. Product relevance may be indicated by customer satisfaction with product content, information from customers about product use, demonstration of product improvements, comparability with other data series, agency responses to customer suggestions for improvement, new or customized products or services, frequency of use, or responses to data requests from users (including policy makers). Through a variety of professional review activities, agencies maintain the relevance and validity of their products, and encourage data users and other stakeholders to contribute to the agencies' data collection and dissemination programs. Striving for relevance requires monitoring to ensure that information systems anticipate change and evolve to appropriately measure our dynamic society and economy.

Accuracy: Qualitative or quantitative measures of important features of correctness, validity, and reliability of data and information products measured as degree of closeness to target values. For statistical data, accuracy may be defined as the degree of closeness to the target value and measured as sampling error and various aspects of nonsampling error (e.g., response rates, size of revisions, coverage, edit performance). For analysis products, accuracy may be the quality of the reasoning, reasonableness of assumptions, and clarity of the exposition, typically measured and monitored through review processes. In addition, accuracy is assessed and improved by internal reviews, comparisons of data among different surveys, linkages of survey data to administrative records, redesigns of surveys, or expansions of sample sizes.

Timeliness: Qualitative or quantitative measure of timing of information releases. Timeliness may be measured as time from the close of the reference period to the release of information, or customer satisfaction with timeliness. Timeliness may also be measured as how well agencies meet scheduled and publicized release dates, expressed as a percent of release dates met.

Program Performance: Statistical agencies agree that program performance encompasses balancing the dimensions of cost, dissemination, and mission accomplishment for the agency as a whole; operating efficiently and effectively; ensuring that customers receive the information they need; and serving the information needs of the Nation. Costs of products or programs may be used to develop efficiency measures. Dissemination involves making sure customers receive the information they need via the most appropriate mechanisms. Mission achievement means that the information program makes a difference. Hence, three key dimensions are being used to indicate program performance: *cost* (input), *dissemination* (output), and *mission achievement* (outcome).

Cost: Quantitative measure of the dollar amount used to produce data products or services. The development and use of financial performance measures within the Federal Government is an established goal; the intent of such measures is to determine the "true costs" of various programs or alternative modes of operation at the Federal level. Examples of cost data include full costs of products or programs, return on investment, dollar value of efficiencies, and ratios of cost to products distributed.

Dissemination: Qualitative or quantitative information on the availability, accessibility, and distribution of products and services. Most agencies have goals to improve product accessibility, particularly through the Internet. Typical measures include: on-demand requests fulfilled, product downloads, degree of accessibility, customer satisfaction with ease of use, number of participants at user conferences, citations of agency data in the media, number of Internet user sessions, number of formats in which data are available, amount of technical support provided to data users, exhibits to inform the public about information products, issuance of newsletters describing products, usability testing of web sites, and assessing compliance with Section 508 of the Rehabilitation Act, which requires Federal agencies to make their electronic and information technology accessible to people with disabilities.

Mission Achievement: Qualitative or quantitative information about the effect of, or satisfaction with, statistical programs. For Government statistical programs, this dimension responds to the question: *Have we achieved our objectives and met the expectations of our stakeholders?* Under this dimension, statistical programs document their contributions to the goals and missions of parent departments and other agencies, the Administration, the Congress, and information users in the private sector and the general public. For statistical programs, this broad dimension involves meeting recognized societal information needs; it also addresses the linkage between statistical outputs and programmatic outcomes.

However, identifying this linkage is far from straightforward. It is frequently difficult to trace the effects of information products on the public good. Such products often are necessary intermediate inputs in the creation of high-visibility information whose societal benefit is clearly recognized. For example, the economic statistics produced by a variety of agencies are directly used by the Bureau of Economic Analysis in the calculation of the Gross Domestic Product (GDP), which analysts universally use to assess changes in the level of domestic economic activity. Similarly, statistics from specific surveys are directly used by the Bureau of Labor Statistics in the calculation of the Consumer Price Index (CPI), which is widely used in diverse applications, such as indexing pensions for retirees. As a result, a number of statistical agencies can claim credit for contributing to the GDP and/or the CPI and to the many uses of these information products. In addition, statistics produced by Federal agencies are used to track the performance of programs managed by their parent or other organizations related to topics such as crime, education, energy, the environment, health, science, and transportation.

Moreover, beyond the direct and focused uses of statistical products, the statistical agencies and their programs serve a diverse and dispersed set of data users working on a broad range of applications. Users include government policy makers at the Federal, State, and local levels, business leaders, households, academic researchers, analysts at public policy institutes and trade groups, marketers and planners in the private sector, and many others. Information produced by statistical agencies often is combined with other information for use in the decision-making process. Thus, the relationship between program outputs and their beneficial uses and outcomes is often complex and difficult to track. Consequently, agencies use both qualitative and quantitative indicators to make this linkage as explicit as feasible.

In the absence of preferred quantitative indicators, qualitative narratives can indicate how statistical agency products contribute to and evaluate progress toward important goals established for government or private programs. In particular, narratives can highlight how statistical agencies measure the Nation's social and economic structure, and how the availability of the information influences changes in policies and programs. These narratives contribute to demonstrating mission accomplishment, particularly in response to questions in Section I of the PART, "program purpose and design." Narratives may describe statistical information's effects on measuring agency policy or change of policy, supporting research focused on policy issues, informing debate on policy issues, or providing in-house consulting support.

In addition to narratives, quantitative measures may be used to reflect mission achievement. For example, customer satisfaction with the statistical agency or unit indicates if the agency or unit has met the expectations of its stakeholders.

Chart 4–2. MOST RECENT PART SUMMARY RATINGS FOR STATISTICAL PROGRAMS

	Summary Rating
Bureau of Economic Analysis	Effective
Bureau of Justice Statistics	
Criminal Justice Statistics Program	Effective
National Criminal History Improvement Program	Moderately Effective
Bureau of Labor Statistics	Effective
Bureau of Transportation Statistics	Moderately Effective
Census Bureau	
Current Demographic Statistics	Effective
Decennial Census	Moderately Effective
Intercensal Demographic Estimates	Moderately Effective
Survey Sample Redesign	Effective
Economic Census	Effective
Current Economic Statistics /Census of Governments	Moderately Effective
Economic Research Service	Effective
Energy Information Administration	Results Not Demonstrated
National Agricultural Statistics Service	Moderately Effective
National Center for Education Statistics	
Statistics	Effective
Assessment	Effective
National Center for Health Statistics	Moderately Effective
Science Resources Statistics Division, NSF	
NSF's Infrastructure and Instrumentation component	Effective

Of the 14 principal Federal statistical agencies or units that are members of the ICSP, eleven agencies have programs that have been assessed using the PART process. All but one of these agencies' programs have received PART summary ratings of Effective or Moderately Effective, as shown in Chart 4–2. While recognizing the strength of the Energy Information Administration's purpose and management, in 2004 EIA received an initial rating of "Results Not Demonstrated" for two key reasons, both of which have since been rectified. At the time of the evaluation, EIA had recently adopted new performance measures and lacked necessary historical baselines and future targets; these now exist for all measures. EIA was also critiqued for having no recurring independent evaluation of its entire program. EIA recruited an energy expert from the Massachusetts Institute of Technology to select and lead a team to conduct such an evaluation, and the team completed its report in 2006. EIA management accomplished one of the team's recommendations in 2007 by obtaining Principal Economic Indicator status for the *Weekly Natural Gas Storage Report* and is implementing several of the team's other recommendations as part of its strategic planning process. As additional ICSP agency programs have an opportunity to undergo the PART process, the agencies plan to continue to use the results of the collaborative performance standards development effort to help maintain and extend their generally favorable assessments.

Highlights of 2009 Program Budget Proposals

The programs that provide essential statistical information for use by governments, businesses, researchers, and the public are carried out by more than 70 agencies spread across every department and several independent agencies. Excluding cyclical funding for the Decennial Census, nearly 40 percent of the total budget for these programs provides resources for 13 agencies or units that have statistical activities as their principal mission. (Please see Table 4–1.) The remaining funding supports work in more than 60 agencies or units that carry out statistical activities in conjunction with other missions such as providing services or enforcing regulations. More comprehensive budget and program information about the Federal statistical system will be available in OMB's annual report, *Statistical Programs of the United States Government, Fiscal Year 2009*, when it is published later this year. The following highlights elaborate on the Administration's proposals to support the programs of the principal Federal statistical agencies.

Bureau of Economic Analysis (BEA): Funding is requested to continue BEA's core programs, and to: (1) extend the prototype R&D satellite account, funded by the National Science Foundation in 2006 and 2007, with annual updates and extensions to BEA's GDP and other estimates and eventual full incorporation into the economic accounts; (2) develop a more accurate measure of the health care sector in GDP and create a supplemental, satellite account that provides detailed and specific information on the expenditures of the health care industry and the costs of treating specific diseases; and (3) ensure the continued improvement of the accuracy and relevance of BEA's economic accounts data.

Bureau of Justice Statistics (BJS): Funding is requested for the maintenance of BJS' core statistical programs, including: (1) criminal victimization statistics; (2) cybercrime data on the incidence, magnitude, and consequences of electronic and computer crime to households and businesses; (3) law enforcement data from over 3,000 agencies on the organization and administration of police and sheriffs' departments; (4) nationally-representative prosecution data on resources, policies, and practices of local prosecutors; (5) court and sentencing statistics, including Federal and State case processing data; and (6) data on correctional populations and facilities from Federal, State, and local governments.

Bureau of Labor Statistics (BLS): Funding is requested to maintain BLS' core programs, and to: 1) address the rising costs of the Current Population Survey (CPS) and avoid a reduction in the accuracy of CPS estimates both by requesting an additional appropriation and by reallocating funds within BLS through the elimination of lower-priority programs, such as the American Time Use Survey, that do not directly support Principal Federal Economic Indicators; (2) initiate continuous updating of the housing and geographic area samples in the Consumer Price Index (CPI), which will improve the accuracy and timeliness of the CPI; and (3) modernize the computing systems for monthly processing of the Producer Price Index and U.S. Import and Export Price Indexes.

Bureau of Transportation Statistics (BTS): Funding is requested to develop measures of congestion and for the maintenance of BTS' core statistical programs, including: (1) production of data products from the 2007 Commodity Flow Survey, a major national benchmark survey of shippers; (2) release of monthly statistics on the commodities and mode of transportation used in trading with the United States' largest partners; (3) production of a core set of economic data and indicators, including the Transportation Services Index, multi-factor productivity measures, the State Transit Expenditure Survey, and the Air Travel Price Index; (4) release of the National Transportation Atlas Data Base, a compendium of national geospatial transportation data; and (5) dissemination of the Transportation Statistics Annual Report and other key publications on the national transportation system.

Census Bureau: Funding is requested for the Census Bureau's ongoing economic and demographic programs and for a re-engineered 2010 Census. For the 2010 Census Program, funding is requested to: (1) conduct planning, testing, and development activities, including completion of dress rehearsal operations and assessments, and carry out several major operations for the 2010 Census, including Address Canvassing, while making final preparations for the remaining operations; (2) update the road network to a more recent vintage that includes new streets and roads constructed in counties that were aligned very early in the program; and (3) continue to conduct the American Community Survey to provide socioeconomic data on an ongoing basis rather than waiting for once-a-decade censuses, releasing data for all places with a population of 20,000 or larger. For the Census Bureau's other economic and demographic programs, funding is requested to: (1) process returns for the 2007 Economic Census and conduct more than 100 annual, quarterly, and monthly surveys that provide key national economic statistics; (2) create Internet and printed reports containing government counts, employment levels, and finance data for the 2007 Census of Governments; (3) operate the Survey of Income and Program Participation at the traditional sample size and incorporate improvements; and (4) maintain the accuracy and relevance of Current Population Survey data.

Economic Research Service (ERS): Funding is requested to continue ERS' core programs, and to: (1) strengthen and enhance the ERS market analysis and outlook program to provide timely analyses of global agricultural product markets; and (2) analyze the regional impacts of bioenergy production and evaluate issues related to transportation networks, feedstock storage, marketing channels, and shifts in commodity production.

Energy Information Administration (EIA): Funding is requested to continue ongoing EIA operations to maintain critical energy data coverage, analysis, and forecasting, and to: (1) enhance petroleum and natural gas data reliability and statistical accuracy; (2) complete development and begin initiating monthly ethanol and biofuels data collections on a national and regional basis as mandated in Section 1508 of the Energy Policy Act of 2005; (3) combine the environmental data previously collected by the Steam-Electric Plant Operation and Design Report into two existing electric power surveys; (4) resume development and testing of the next generation National Energy Model to replace the existing National Energy Modeling System; and (5) enhance EIA's global oil, gas, and coal analysis and forecasting capabilities.

National Agricultural Statistics Service (NASS): Funding is requested to continue NASS core programs and to: (1) enhance the quality, precision, and detail of NASS State, regional, and national estimates to help ensure that they meet customer needs; (2) provide a data series on bioenergy production and utilization, (3) measure energy production and use on farms through the Census of Agriculture; (4) reduce the cyclical fluctuations of annual funding needs for the Census of Agriculture; (5) summarize and publish the 2007 Census of Agriculture, to be released in February 2009, and (6) begin preparation of numerous census follow-on studies, including a revamped Farm and Ranch Irrigation Survey to evaluate current access to reuse water, quantities of water used, and costs associated with various water delivery systems.

National Center for Education Statistics (NCES): Funding is requested to continue NCES' core programs and to: (1) conduct the National Assessment of Educational Progress, including voluntary 12th grade reading and mathematics assessments, in 2009; (2) conduct a new high school longitudinal study that will begin with a cohort of 9th graders in 2009 and follow them through postsecondary education and into the workforce; (3) conduct surveys and analyze data from international studies such as the 2007 Trends in International Mathematics and Science Study and the 2009 Programme for International Student Assessment and plan for new international assessments; (4) analyze data from the 2007–08 Schools and Staffing Survey and collect data for the Teacher Followup Study; and (5) conduct the Beginning Postsecondary Student Longitudinal Survey, which provides information on the progress of postsecondary students.

National Center for Health Statistics (NCHS): Funding is requested to continue data collection, analysis, and dissemination activities for key national health data systems, including the National Vital Statistics System, National Health Interview Survey, National Health and Nutrition Examination Survey (NHANES), and National Health Care Survey; and to: (1) further gains in timeliness by implementing systems improvements in data collection and processing; (2) work on the creation and use of new data access tools and tutorials to ensure data are available in easily accessible forms; (3) use birth and death data from the States for tracking priority health initiatives in prevention, cancer control, out of wedlock births, and teenage pregnancy; (4) transition from International Classification of Diseases (ICD) 9-CM to ICD-10-CM code sets to improve comparability between mortality and morbidity data in the U.S. and internationally; (5) ensure availability of NHANES data on diet and nutrition, blood pressure, and other health indicators; and (6) allow the National Health Interview Survey to return to its designed sample of 100,000, permitting estimates for smaller populations to be published.

Office of Research, Evaluation, and Statistics (ORES), SSA: Funding is requested to continue ORES' core programs, and to: (1) further modernize ORES's processes for developing and disseminating data from the Social Security Administration's major administrative data files for statistical purposes; (2) support outside surveys and linkage of SSA administrative data to surveys; (3) create a new public use file of administrative data on earnings histories and benefits for a sample of Social Security Numbers; and 4) evaluate the analytic validity of a synthetic data file based on data from the 1990–1993 and 1996 Survey of Income and Program Participation panels matched to SSA and IRS administrative data.

Science Resources Statistics Division (SRS), NSF: Funding is requested to implement ongoing programs on the science and engineering enterprise, and to: (1) continue redesign and improvement activities for a broad range of surveys, particularly the suite of research and development surveys; (2) support the Science of Science and Innovation Policy initiative to develop the data, tools, and knowledge needed for a new science of science policy by enhancing the comparability, scope, and availability of international data; (3) implement a full-scale pilot of a redesigned Survey of Industrial Research and Development; (4) develop a pilot data collection on postdoctoral students; and (5) enhance SRS data linking, data extraction, and data matching activities.

Statistics of Income Division (SOI), IRS: Funding is requested to continue SOI's core programs, and to: (1) continue to modernize tax data collection systems, particularly to more efficiently assimilate into SOI systems data captured from the electronic filing of tax and information returns; (2) examine means to better mask individual records to minimize the risk of re-identification in the Individual Public Use cross-section file; (3) undertake a feasibility study to develop an Individual Public Use panel data file; (4) develop statistical techniques to identify outliers and edit data in IRS administrative population files; and (5) modernize and expedite dissemination of data products and reports on the www.irs.gov/TaxStats website.

Table 4–1. 2007–2009 BUDGET AUTHORITY FOR PRINCIPAL STATISTICAL AGENCIES[1]

(In millions of dollars)

	2007 Actual	Estimate	
		2008	2009
Bureau of Economic Analysis	80	80	91
Bureau of Justice Statistics [2]	47	49	53
Bureau of Labor Statistics	548	544	593
Bureau of Transportation Statistics	28	27	27
Census Bureau [3]	913	1260	2635
Salaries and Expenses [3]	217	233	269
Periodic Censuses and Programs	696	1027	2366
Economic Research Service [4]	75	77	82
Energy Information Administration	91	95	111
National Agricultural Statistics Service [5]	147	162	153
National Center for Education Statistics	183	192	244
Statistics	90	88	105
Assessment	88	98	130
National Assessment Governing Board	5	6	9
National Center for Health Statistics [6]	107	114	125
Office of Research, Evaluation, and Statistics, SSA	15	20	16
Science Resources Statistics Division, NSF	36	36	40
Statistics of Income Division, IRS	38	41	41

[1] Reflects any recissions.

[2] Includes funds for management and administrative costs of $12, $14, and $15 million in 2007, 2008, 2009, respectively that were previously displayed separately.

[3] Includes Mandatory Appropriations of $20 million in 2007 and $30 million in 2008 and 2009 for the Survey of Program Dynamics and collection of data related to the allocation to States of State Children's Health Insurance Program funds.

[4] 2007 funding assumes the reallocation of $350,000 provided in 2006 for a comprehensive report on the economic development and current status of the sheep industry in the United States. Funding for that purpose will not be needed in 2008.

[5] Includes funds for the periodic Census of Agriculture of $36, $52, and $39 million in 2007, 2008, and 2009, respectively. The FY 2009 Budget reflects a decrease of $8.7 million, due to the cyclical nature of the census preparations.

[6] All funds from the Public Health Service Evaluation Fund. Administrative costs for NCHS that previously were displayed as part of the NCHS budget line are now reflected in two consolidated CDC-wide budget lines for management and administrative costs.

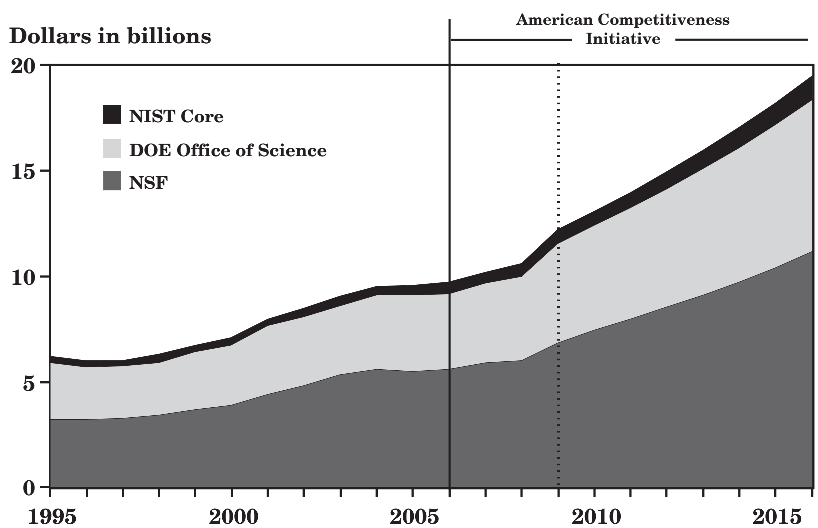
5. RESEARCH AND DEVELOPMENT

At a record $147 billion in the President's 2009 Budget, Federal research and development (R&D) comprises one out of every seven dollars funded in the discretionary budget and 5 percent of total government spending. This substantial investment in the quest for new knowledge and future discovery will enhance U.S. economic strength, national security, and world leadership by building innovation capacity through a world-class science and technology research enterprise and a high-quality scientific and technical education infrastructure.

The relationship between support for science and economic growth is well documented. Investments in basic research lead to knowledge breakthroughs that fuel innovation, drive productivity, grow the economy, and improve our understanding of the world. Economists estimate that as much as half of post-World War II economic growth is directly due to technological progress fueled by R&D. Economic payoffs from research come in the form of process and product innovations that reduce the costs of production, lower product prices, and result in new and better products and services. Consumers ultimately benefit from less expensive, higher quality and more useful products and services. Today's transforming technologies and most popular consumer items have deep roots in basic and applied research.

Under this Administration, Federal R&D is being increased 61 percent, from $91 billion in 2001 to the $147 billion in this year's request. To sustain the nation's economic competitiveness, the President, in his 2006 State of the Union address, presented a long-term vision to strengthen Federal support for the Nation's innovation enterprise in an integrated package of investments and policies called the American Competitiveness Initiative (ACI). President Bush remains firmly committed to the fulfillment of that vision and seeks to continue that implementation of the ACI in the 2009 Budget.

Chart 5-1. American Competitiveness Initiative Research

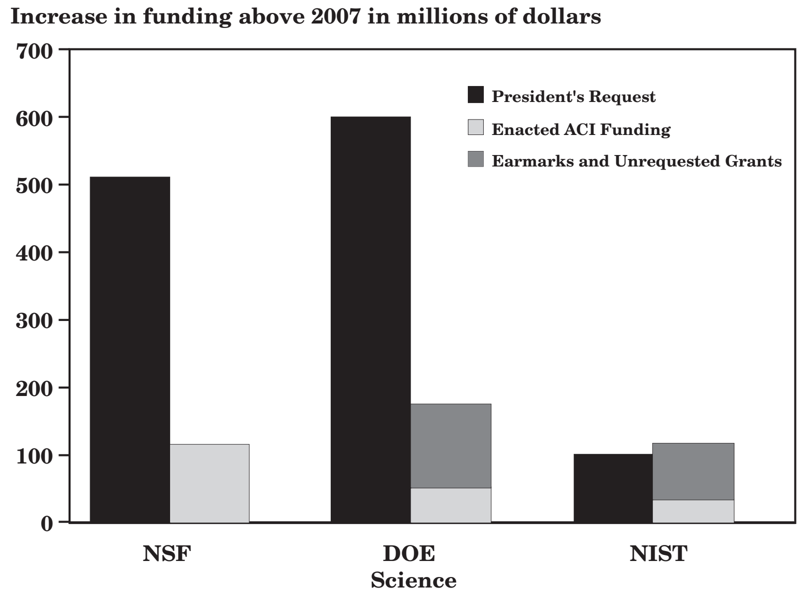


I. THE AMERICAN COMPETITIVENESS INITIATIVE

The President's 2009 Budget maintains a strong commitment to invest in basic research areas that advance knowledge and technologies used by scientists in nearly every field. Through the ACI, the President plans to double, over 10 years, investment in innovation-enabling research at three Federal agencies—the National Science Foundation (NSF), the Department of Energy's (DOE's) Office of Science, and the Department of Commerce's National Institute of Science and Technology (NIST) laboratories.

In 2009, the third year of the ACI, President Bush proposes $12.2 billion total for NSF, DOE's Office of Science, and NIST laboratories, an overall funding increase of $1.6 billion, or 15 percent, above the 2008 enacted total of $10.6 billion. Unfortunately, the 2008 omnibus appropriations bill drastically cut proposed ACI research increases, funding only one-third of the President's requested increase. In addition, Congress directed over half of the enacted increase ($207 million of a total $408 million increase) to earmarks and an unrequested new grants program.

Chart 5-2. 2008 ACI Research Funding



This outcome greatly impairs the Administration's efforts to strengthen long-term economic competitiveness through support for innovation-enabling basic research in the physical sciences and engineering. President Bush's call for doubling of these research levels had been roundly supported by business and academic leaders and embraced by Congress when it enacted the bipartisan America COMPETES Act (Public Law 110–69). The President's Budget continues funding for ACI research on its doubling path to ensure this consensus national priority objective is realized.

Research Agencies in the American Competitiveness Initiative

The National Science Foundation is the primary source of support for academic research in the physical sciences, funding basic research in areas such as nanotechnology, advanced networking and information technology, physics, chemistry, materials science, mathematics, and engineering. It also is well regarded for funding nearly all of its research through a competitive, peer-reviewed process. The increase in NSF funding will support many more researchers, students, post-doctoral fellows and technicians contributing to the innovation enterprise.

The Department of Energy's Office of Science supports grants and infrastructure for a wide range of basic research related to economically significant innovations including nanotechnology, biotechnology, high-end computing and advanced networking, and energy technologies. The 2009 Budget increases funding for both research and cutting-edge facilities, meets the United States' contribution to the international fusion energy project known as ITER, upgrades the nuclear physics accelerator at the Thomas Jefferson lab in Virginia, accelerates strategic basic research for electrical energy storage and an advanced nuclear fuel cycle, and reorganizes and reforms the radioisotope production and application programs within the Department.

The Department of Commerce's National Institute of Standards and Technology (NIST) invests in technological innovation through research and standards development. These investments will improve NIST's research capabilities by providing high performance laboratory space for diverse research fields and world-class researchers; aid the responsible development of nanotechnology manufacturing; expand NIST's neutron facility to aid in characterizing novel materials in high-growth research fields; and improve our understanding of complex biological systems to accelerate innovations and enable investment in biosciences, including disease diagnosis and treatment.

II. IMPROVING THE PERFORMANCE OF R&D PROGRAMS

R&D is critically important for keeping our Nation economically competitive, and it will help solve the challenges we face in health, defense, energy, and the environment. Therefore, every Federal R&D dollar must be invested as effectively as possible.

R&D Investment Criteria

The Administration continues to improve the effectiveness of the Federal Government's investments in R&D by applying transparent investment criteria in analyses that inform recommendations for program funding and management. R&D performance assessment must be done with care. Research often leads scientists and engineers down unpredictable pathways with unpredictable results. This outcome can require special consideration when measuring an R&D program's performance against its initial goals.

With this in mind, the Administration is improving methods for setting priorities based on expected results, and is asking agencies to apply specific criteria that programs or projects must meet to be started or continued and supply clear milestones for gauging progress and improved metrics for assessing results.

As directed by the President's Management Agenda, the R&D Investment Criteria accommodate the wide range of R&D activities, from basic research to development and demonstration programs, by addressing three fundamental aspects of R&D:

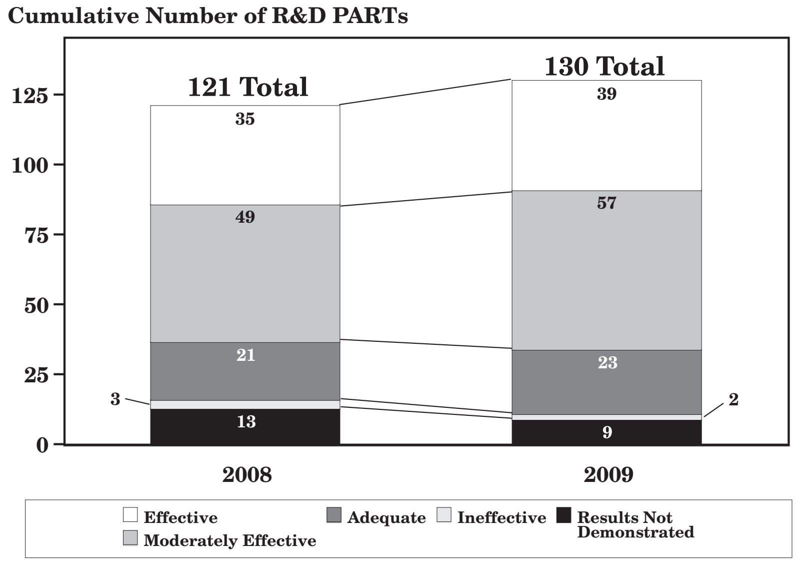
- *Relevance*—Programs must be able to articulate *why* they are important, relevant, and appropriate for Federal investment;
- *Quality*—Programs must justify *how* funds will be allocated to ensure quality; and
- *Performance*—Programs must be able to monitor and document *how well* the investments are performing.

In addition, R&D projects and programs relevant to industry are expected to apply criteria to determine the appropriateness of the public investment, enable comparisons of proposed and demonstrated benefits, and provide meaningful decision points for completing or transitioning the activity to the private sector.

As part of the President's Management Agenda's Performance Improvement initiative, the Administration uses the Program Assessment Rating Tool (PART) to consistently assess the effectiveness of programs. A section of the PART specifically addresses the assessment of R&D program management and performance and is aligned with the R&D Investment criteria. In the last six years, agencies completed 1,016 PART assessments, of which 130 were for R&D programs. The results of these PART assessments may be found on the web at *www.expectmore.gov*.

Performance assessments help policy makers identify those programs that are the most effective and worthy of funding; however, the Administration does not allocate funding levels and initiate management reforms strictly by formula or based solely on PART results. For instance, funding may be reduced for programs rated Effective by the PART that have achieved what they set out to do, and programs rated Ineffective by the PART might receive more money if it is clear it would help them become more effective. The PART provides information that leads to more informed decisions.

Chart 5-3. Scores of R&D PART Assessments



Research Earmarks

President Bush called on Congress to reform the earmark process, proposing a series of reforms that include full disclosure for each earmark and cutting the total number and cost of all earmarks by at least half. Consistent with this effort, the Administration is continuing its strong support for awarding research funds based on merit review through a competitive process refereed by scientists. Such a system has the best prospects for ensuring that the top research is supported. Research earmarks—in general the assignment of money during the legislative process for use by a specific organization or project—are counter to a merit-based competitive selection process. Earmarks signal to potential investigators that there is an acceptable alternative to creating quality research proposals for merit-based consideration. Such an alternative can be an ineffective use of taxpayer funds.

Unfortunately, the practice of earmarking funds to colleges, universities, and other entities for specific research projects expanded in recent years. Some argue that earmarks help spread the research money to states or institutions that would receive less research funding through other means. However, *The Chronicle of Higher Education* has reported that this is not the main role earmarks play. Often only a minor portion of academic earmark funding goes to the states with the smallest shares of Federal research funds.

Some proponents of earmarking assert that earmarks provide a means of funding unique projects that would not be recognized by the conventional peer-review process. To address this concern, a number of research agencies have procedures and programs to reward "out-of-the-box" thinking. For example, the Defense Advanced Research Projects Agency, within the Department of Defense, seeks out high-risk, high-payoff scientific proposals, the National Institutes of Health has established a similarly focused "Pioneer Award," and program managers at NSF set aside a share of funding for higher-risk projects in which scientists and engineers see high potential.

Earmarks for activities that are outside of an agency's mission can detract from an efficient and effective Federal effort on behalf of taxpayers. For instance, in 2008, the Congress has directed DOD to fund research on a wide range of diseases including diabetes, autism, and muscular dystrophy. Funding for unrequested medical research projects in DOD's budget totals about $800 million in 2008 alone. While research on these diseases is very important, these diseases are not unique to the U.S. military and the research could be better selected, carried out and coordinated within civil medical research agencies without disruption to the military mission. At the same time, intrusion of earmarks into the peer-review processes of civilian medical research agencies would have a significant detrimental impact on ensuring that the most important and promising research is chosen by medical research professionals with access to information on the most promising research opportunities.

Earmarks that divert funding from a merit-based process undermine America's research productivity. The Administration commends Congress for taking measures to protect NSF and the National Institutes of Health from this practice, a practice that should be followed throughout the R&D programs.

III. PRIORITIES FOR FEDERAL RESEARCH AND DEVELOPMENT

The 2009 Budget requests $147 billion for Federal R&D funding, which targets key research investments within agencies, in particular, the three ACI agencies: NSF, the DOE's Office of Science, and the NIST laboratories. In addition, DOD requests $1.7 billion for basic research, $270 million more than was requested in the 2008 Budget. This increase is partially hidden by the earmarked funding included in the 2008 enacted level. (Table 5–1 provides details by agency.)

Multi-Agency R&D Priorities

The 2009 Budget continues to target important research investments that must be coordinated across multiple agencies. A number of these challenges are being addressed through multi-agency research efforts coordinated through the National Science and Technology Council (NSTC) and other interagency forums. The Administration will continue to analyze other areas of critical need that could benefit in the future from improved focus and coordination among agencies.

Homeland Security R&D: A robust R&D effort continues to be a key asset in advancing technologies in support of the President's national strategy for homeland security. The United States derives much of its ability to thwart and recover from these threats via its advantage in the realm of science and technology (S&T), and we must continue to use this advantage and encourage innovative R&D to assist in protecting and defending against the range of natural and manmade threats confronting the country. Though there have been numerous achievements over the past five years to improve the Nation's counterterrorism capability, many challenges remain.

The Administration's annual R&D budget priorities memorandum summarizes priorities from the Administration's homeland security strategies that should be addressed via multi-agency coordination. For example, in response to the 2007 memo, agencies:

- advanced biometric capabilities as outlined in *The National Biometrics Challenge*, and established policy for agency adoption of biometric standards that will enable real-time, verifiable, interoperable, and privacy-protecting root identification;
- improved radiation portal monitors and developed standards for technologies that detect nuclear and radioactive material before it enters the U.S.;
- developed more sensitive environmental sensors to quickly detect the presence of biological or toxic agents; and
- integrated modeling efforts for high consequence foreign animal diseases, including avian influenza and foot and mouth disease, to facilitate coordinated response planning and guide countermeasure R&D investments.

The 2009 Budget provides continued support for these and many other interagency R&D programs, including: pursuing stand-off detection and imaging capabilities to locate and identify nuclear threat materials at a distance; improving the capability to detect and mitigate the use of improvised explosive devices in the U.S.; continuing the implementation of the 2008–2012 R&D plan for high-consequence foreign animal diseases; and accelerating the advanced development of critical medical countermeasures that do not have a pre-existing market to stimulate their development.

Networking and Information Technology R&D: The Budget provides $3.6 billion for the multi-agency Networking and Information Technology Research and Development (NITRD) Program, which plans and coordinates agency research efforts in advanced networking, cyber security, high-end computing systems, software development, high-confidence systems, information management, and other information technologies. Advances in information technology contribute both to accelerating progress in scientific research and to U.S. economic competitiveness. Federal agencies coordinate their R&D investments in the NITRD Program to avoid unnecessary duplication and to help ensure that the investments have maximum impact.

The NITRD agencies focused on implementing the recommendations contained in both the Federal Plan for High-End Computing and the Federal Plan for Cyber Security and Information Assurance R&D in 2007, and will complete the Federal Plan for Advanced Networking R&D in early 2008. Also in 2007, the President's Council of Advisors on Science and Technology (PCAST) issued a report reviewing the NITRD program and providing recommendations for the future. The Federal agencies are evaluating these recommendations and will begin implementation in 2008.

The 2009 Budget sustains a substantial level of investment in high-end computing research for large-scale scientific and national security applications, particularly in scalable systems software and applications that can capitalize on emerging architectures based on processing units with many computational cores. The 2009 Budget also increases support for investments in innovative research in both cyber security and advanced networking R&D that have the potential to transform the Internet into a more secure and reliable interconnected network to support both commerce and high-speed data transfers for scientific applications. Reports and general information about NITRD are available at *www.nitrd.gov/*.

Nanotechnology R&D: The Budget provides $1.5 billion for the multi-agency National Nanotechnology Initiative (NNI). The NNI focuses on R&D that creates materials, devices, and systems that exploit the fundamentally distinct properties of matter as it is manipulated at the atomic and molecular levels. The results of NNI-supported R&D are already leading to breakthroughs in disease detection and treatment, manufacturing at or near the nanoscale level, environmental monitoring and protection, energy production and storage, and creating electronic devices that have even greater capabilities than those available today. Research opportunities cover a similarly broad spectrum. Advances that will be foundational for all aspects of nanotechnology R&D in particular include: instrumentation for characterizing nanoscale materials in the laboratory, in the body, and in the environment; and computational research to model and predict properties at the nanoscale, for designing novel materials, and for determining their behavior under various conditions and environments.

Guided by the NNI Strategic Plan, participating agencies will continue to support discovery, development and application of nanotechnology through investigator-led fundamental and applied research; multidisciplinary centers of excellence; education and training of nanotechnology researchers, teachers, workers, and the public; and infrastructure and standards development, including user facilities and networks that are broadly available to support research and innovation. In addition, agencies continue to maintain a focus on the responsible development of nanotechnology, with attention to the human and environmental health impacts, as well as ethical, legal, and other societal issues.

These activities will be appropriately coordinated with stakeholders outside of the Federal government, including industry, academia, and other governments. Agency investments in nanotechnology R&D are informed by the NSTC's Nanoscale Science, Engineering, and Technology Subcommittee and by outside reviews of the PCAST and the National Research Council. Reports of these Federal and non-Federal bodies help to identify and prioritize research, including in the area of environmental, health, and safety aspects of nanotechnology. Reports and general information about the NNI are available at *www.nano.gov/*.

Climate Change R&D: The 2009 Budget for the Climate Change Science Program (CCSP) continues to support the implementation of the CCSP Strategic Plan, which was released in July 2003. The 13 departments and agencies that participate in the CCSP coordinate preparation of the budget and program implementation. During 2009, the CCSP will continue research into important physical science aspects of climate change, including scientific uncertainties and preparation of a series of *Synthesis and Assessment* reports. In addition, added emphasis will be placed on the impacts of climate change and the science of adaptation. Working within the overarching priorities defined in the Strategic Plan, the CCSP's interagency coordination and integration efforts will give particular emphasis in FY 2009 to the following climate change research issues: development of an integrated earth system analysis capability; a focus toward creating a high-quality record of the state of the atmosphere and ocean since 1979; development of an end-to-end hydrologic projection and application capability; enhanced carbon cycle research on high latitude systems; quantification of climate forcing and feedbacks by aerosols, non-carbon dioxide greenhouse gases, water vapor, and clouds; assessment of abrupt change in a warming climate; examination of the feasibility of development an abrupt change early warning system; and ecological forecasting.

The program expects to receive input from the National Research Council under the terms of a continuing advisory agreement. This advice will include review of several CCSP Synthesis and Assessment Products. The CCSP will continue to track deliverables and milestones for each of its programs in order to assess overall performance. Additional detail on individual agency activities will be provided in the Administration's 2009 edition of *Our Changing Planet*. Reports and general information about the CCSP are available on the program's website: *www.climatescience.gov/*.

The Climate Change Technology Program (CCTP) continues to provide strategic direction, planning, and analysis to help coordinate and prioritize activities within the portfolio of federally funded climate change technology R&D consistent with the President's National Climate Change Technology Initiative (NCCTI). The CCTP has published a Vision and Framework for Strategy and Planning and a Strategic Plan that outlines the program's goals and priorities. The CCTP has also identified within its portfolio a subset of NCCTI priority activities, defined as discrete R&D activities that address technological challenges, which, if solved, could advance technologies with the potential to dramatically reduce, avoid, or sequester greenhouse gas emissions. In 2009, CCTP will continue to focus on implementing the elements of its Vision and Framework document and Strategic Plan. Reports and general information about the CCTP are available on the program's website: *www.climatetechnology.gov/*.

The CCSP and CCTP will continue to coordinate implementation of relevant climate change provisions in the 2005 Energy Policy Act as appropriate.

Ocean Research: The 2009 Budget supports ocean and coastal research as outlined in *Charting the Course for Ocean Science in the United States for the Next Decade: An Ocean Research Priorities Plan and Implementation Strategy*. Developed by the NSTC's Joint Subcommittee on Ocean Science and Technology, the plan provides a framework for an ocean observing system that will accurately describe marine conditions in real-time, enhance our capability to forecast ocean processes, and provide scientific support for ecosystem-based management. These three overarching goals will maintain U.S. leadership in ocean technology and enhance U.S. competitiveness. These goals are supported by 20 national ocean research priorities, established with extensive community input and oriented around the most compelling societal issues. The Joint Subcommittee on Ocean Science and Technology will coordinate multi-agency research into key aspects of the oceans, coasts and Great Lakes and work closely with the other coordinating bodies of the President's Ocean Action Plan.

Biomass R&D: The Biomass R&D Act of 2000 established the Biomass R&D Board to guide interagency coordination and bring coherence to Federal strategic planning on biomass-related issues. The Board is completing an interagency coordination and planning document that will be reviewed by the National Academy of Sciences. In addition to assessing the goals and plans for interagency biomass research, the Academy will be tasked with considering economic and other impacts of increased biomass utilization under various energy price and policy scenarios. Additional information on the Biomass R&D Board is available online at *www.biomass.govtools.us***.**

Stimulating Private Investment

Along with direct spending on R&D, the Federal Government has sought to stimulate private R&D investment through incentives in the Internal Revenue Code. A long-standing credit, which had provided a 20-percent tax credit for private research and experimentation expenditures above a certain base amount, expired at the end of December 2007. The Administration again proposes making the enhanced Research and Experimentation tax credit permanent starting in 2008. The proposed extension will cost $55 billion over the period from 2008 to 2013. In addition, a permanent tax provision lets companies deduct, up front, the costs of certain kinds of research and experimentation, rather than capitalize these costs. Also, equipment used for research benefits from relatively rapid tax depreciation allowance.

IV. FEDERAL R&D DATA

Federal R&D Funding

R&D is the collection of efforts directed towards gaining greater knowledge or understanding and applying knowledge toward the production of useful materials, devices, and methods. R&D investments can be characterized as basic research, applied research, development, R&D equipment, or R&D facilities, and the Office of Management and Budget has used those or similar categories in its collection of R&D data since 1949.

Basic research is systematic study directed toward a fuller knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications towards processes or products in mind. Basic research, however, may include activities with broad applications in mind.

Applied research is systematic study to gain knowledge or understanding necessary to determine the means by which a recognized and specific need may be met.

Development is systematic application of knowledge or understanding, directed toward the production of useful materials, devices, and systems or methods, including design, development, and improvement of prototypes and new processes to meet specific requirements.

Research and development equipment includes acquisition or design and production of movable equipment, such as spectrometers, research satellites, detectors, and other instruments. At a minimum, this category should include programs devoted to the purchase or construction of R&D equipment.

Research and development facilities include the acquisition, design, and construction of, or major repairs or alterations to, all physical facilities for use in R&D activities. Facilities include land, buildings, and fixed capital equipment, regardless of whether the facilities are to be used by the Government or by a private organization, and regardless of where title to the property may rest. This category includes such fixed facilities as reactors, wind tunnels, and particle accelerators.

There are over twenty Federal agencies that fund R&D in the U.S. The nature of the R&D that these agencies fund depends on the mission of each agency and on the role of R&D in accomplishing it. Table 5–1 shows agency-by-agency spending on basic and applied research, development, and R&D equipment and facilities.

The "Federal Science and Technology" (FS&T) budget (shown in Table 5–2) highlights the creation of new knowledge and technologies more consistently and accurately than the overall R&D data. The FS&T budget emphasizes research; does not count funding for defense development, testing, and evaluation; and totals less than half of Federal R&D spending. The 2009 Budget requests $62 billion for FS&T.

Table 5–1. FEDERAL RESEARCH AND DEVELOPMENT

(Budget authority, dollar amounts in millions)

	2007 Actual	2008 Estimate	2009 Proposed	Dollar Change: 2008 to 2009	Percent Change: 2008 to 2009
By Agency					
Defense	78,329	80,192	80,494	302	0%
Health and Human Services	29,201	29,475	29,480	5	0%
NASA	9,952	10,436	10,737	301	3%
Energy	8,522	9,739	10,558	819	8%
National Science Foundation	4,479	4,500	5,201	701	16%
Homeland Security	1,246	1,143	3,287	2,144	188%
Agriculture	2,275	2,309	1,952	–357	–15%
Commerce	1,080	1,113	1,157	44	4%
Transportation	768	823	901	78	9%
Veterans Affairs	892	960	884	–76	–8%
Interior	604	676	617	–59	–9%
Environmental Protection Agency	606	557	550	–7	–1%
Other	1,118	1,140	1,145	5	0%
TOTAL	**139,072**	**143,063**	**146,963**	**3,900**	**3%**
Basic Research					
Defense	1,525	1,634	1,699	65	4%
Health and Human Services	15,646	15,897	15,884	–13	0%
NASA	1,786	2,104	1,912	–192	–9%
Energy	3,123	3,232	3,556	324	10%
National Science Foundation	3,635	3,689	4,336	647	18%
Homeland Security	247	248	276	28	11%
Agriculture	893	856	798	–58	–7%
Commerce	142	96	176	80	83%
Transportation	2	3	3	....	....
Veterans Affairs	358	385	354	–31	–8%
Interior	34	43	40	–3	–7%
Environmental Protection Agency	101	97	95	–2	–2%
Other	196	188	190	2	1%
SUBTOTAL	**27,688**	**28,472**	**29,319**	**847**	**3%**
Applied Research					
Defense	5,103	5,058	4,245	–813	–16%
Health and Human Services	13,405	13,414	13,424	10	0%
NASA	947	974	919	–55	–6%
Energy	2,630	3,513	3,474	–39	–1%
National Science Foundation	357	340	422	82	24%
Homeland Security	434	382	381	–1	0%
Agriculture	1,072	1,103	922	–181	–16%
Commerce	637	731	737	6	1%
Transportation	562	576	614	38	7%
Veterans Affairs	482	519	478	–41	–8%
Interior	510	549	513	–36	–7%
Environmental Protection Agency	415	379	370	–9	–2%
Other	576	574	588	14	2%
SUBTOTAL	**27,130**	**28,112**	**27,087**	**–1,025**	**–4%**
Development					
Defense	71,641	73,358	74,393	1,035	1%
Health and Human Services	22	22	22	....	....
NASA	5,576	5,436	5,731	295	5%
Energy	1,973	2,232	2,472	240	11%
National Science Foundation	....	....	....	....	....
Homeland Security	434	365	380	15	4%
Agriculture	195	195	186	–9	–5%
Commerce	83	76	68	–8	–11%
Transportation	185	225	264	39	17%
Veterans Affairs	52	56	52	–4	–7%
Interior	55	62	62	....	....
Environmental Protection Agency	90	81	85	4	5%
Other	300	324	298	–26	–8%
SUBTOTAL	**80,606**	**82,432**	**84,013**	**1,581**	**2%**
Facilities and Equipment					
Defense	60	142	157	15	11%
Health and Human Services	128	142	150	8	6%

Table 5–1. FEDERAL RESEARCH AND DEVELOPMENT—Continued

(Budget authority, dollar amounts in millions)

	2007 Actual	2008 Estimate	2009 Proposed	Dollar Change: 2008 to 2009	Percent Change: 2008 to 2009
NASA	1,643	1,922	2,175	253	13%
Energy	796	762	1,056	294	39%
National Science Foundation	487	471	443	–28	–6%
Homeland Security	131	148	2,250	2,102	1420%
Agriculture	115	155	46	–109	–70%
Commerce	218	210	176	–34	–16%
Transportation	19	19	20	1	5%
Veterans Affairs	....	....	....	....	....
Interior	5	22	2	–20	–91%
Environmental Protection Agency	....	....	....	....	....
Other	46	54	69	15	28%
SUBTOTAL	**3,648**	**4,047**	**6,544**	**2,497**	**62%**

Table 5–2. FEDERAL SCIENCE AND TECHNOLOGY BUDGET

(Budget authority, dollar amounts in millions)

	2007 Actual	2008 Estimate	2009 Proposed	Dollar Change: 2008 to 2009	Percent Change: 2008 to 2009
By Agency					
National Institutes of Health	**28,880**	**29,307**	**29,307**	....	....
Energy [1]	**6,200**	**7,226**	**7,627**	**401**	**6%**
Science Programs	3,797	3,973	4,722	749	19%
Electricity Transmission & Distribution	97	110	100	–10	–9%
Nuclear Energy	540	962	854	–108	–11%
Energy Efficiency and Renewable Energy Resources [2]	1,176	1,440	1,197	–243	–17%
Fossil Energy R&D [3]	590	741	754	13	2%
National Science Foundation	**5,917**	**6,032**	**6,854**	**822**	**14%**
Defense	**6,628**	**6,692**	**5,944**	**–748**	**–11%**
Basic Research	1,525	1,634	1,699	65	4%
Applied Research	5,103	5,058	4,245	–813	–16%
NASA	**6,148**	**5,911**	**5,517**	**–394**	**–7%**
Science	4,610	4,627	4,442	–185	–4%
Aeronautics	594	505	447	–58	–11%
Exploration Systems [4]	755	654	452	–202	–31%
Innovative Partnerships	189	125	176	51	41%
Agriculture	**2,158**	**2,156**	**1,921**	**–235**	**–11%**
CSREES Research and Education [5]	674	672	539	–133	–20%
Economic Research Service	75	77	82	5	6%
Agricultural Research Service [6]	1,129	1,121	1,037	–84	–7%
Forest Service: Forest and Rangeland Research	280	286	263	–23	–8%
Commerce	**891**	**1,008**	**1,012**	**4**	**0%**
NOAA: Oceanic & Atmospheric Research	398	398	378	–20	–5%
NIST Intramural Research and Facilities	493	610	634	24	4%
Interior (USGS)	**988**	**1,006**	**969**	**–37**	**–4%**
Veterans Affairs [7]	**892**	**891**	**884**	**–7**	**–1%**
Environmental Protection Agency [8]	**764**	**786**	**790**	**4**	**1%**
Transportation	**560**	**577**	**601**	**24**	**4%**
Highway research: Federal Highway Administration [9]	430	430	430	....	....
Federal Aviation Administration: Research, Engineering, and Development	130	147	171	24	16%
Education	**342**	**337**	**344**	**7**	**2%**
Special Education Research and Innovation	72	71	71	....	....
National Institute on Disability and Rehabilitation Research	107	106	106	....	....
Research, Development, and Dissemination [10]	163	160	167	7	4%
Total	**60,368**	**61,929**	**61,770**	**–159**	**–0.3%**

[1] Data do not reflect actual transfers to Science Programs from other Department of Energy R&D programs to support the Small Business Innovation Research and the Small Business Technology Transfer programs.
[2] Excludes Weatherization, State grants, and intergovernmental activities.
[3] Excludes funding for the Alaska Natural Gas Pipeline project.
[4] Exploration Systems includes the Exploration Technology Development Program, the Human Research Program, and the Lunar Precursor Robotic Program.
[5] Includes the appropriation of earnings from the Native American Endowment Fund, but not the appropriation to the Endowment's principal.
[6] Excludes building and facilities. Also excludes $3 million transfer to the account in 2007.
[7] Includes the medical care and prosthetic research appropriation and research support from the VA medical care appropriations. In 2008, $69 million in emergency funding provided to the Medical and Prosthetics Research account by the Consolidated Appropriations Act of 2008.
[8] Science and Technology, plus superfund transfer.
[9] According to the process established in section 1102(f) of SAFETEA-LU, FHWA annually adjusts the research funding level from the appropriated obligation limitation.
[10] Does not include funding for Regional Educational Labs.

Table 5–3. AGENCY DETAIL OF SELECTED INTERAGENCY R&D EFFORTS

(Budget authority, dollar amounts in millions)

	2007 Actual	2008 Estimate	2009 Proposed	Dollar Change: 2008 to 2009	Percent Change: 2008 to 2009
Networking and Information Technology R&D:					
Defense	1,194	1,267	1,242	–25	–2%
National Science Foundation	909	931	1,090	159	17%
Health and Human Services [1]	566	556	555	–1	0%
Energy	349	436	494	58	13%
Commerce	76	85	90	5	6%
National Aeronautics and Space Administration	91	86	84	–2	–2%
Environmental Protection Agency	6	6	6	......	......
National Archives and Records Administration	4	5	5	......	......
TOTAL	**3,195**	**3,372**	**3,566**	**194**	**6%**
National Nanotechnology Initiative:					
Defense	450	487	431	–56	–11%
National Science Foundation	389	389	397	8	2%
Energy	236	251	311	60	24%
Health and Human Services [2]	222	232	232	......	......
Commerce (NIST)	88	89	110	21	24%
National Aeronautics and Space Administration	24	24	24	......	......
Environmental Protection Agency	8	10	15	5	50%
Agriculture	7	11	8	–3	–27%
Justice	2	2	2	......	......
Transportation	1	1	1	......	......
Homeland Security	2	1	1	......	......
TOTAL	**1,429**	**1,497**	**1,532**	**35**	**2%**
Climate Change Science Program:					
National Aeronautics and Space Administration	1,084	1,078	1,204	126	12%
Commerce (NOAA)	184	240	260	20	8%
National Science Foundation	207	205	221	16	8%
Energy	126	128	146	18	14%
Agriculture	61	65	62	–3	–5%
National Institutes of Health	47	47	47	......	......
Interior (USGS)	27	34	31	–3	–9%
U.S. Agency for International Development	14	14	20	6	43%
Environmental Protection Agency	16	20	16	–4	–20%
Smithsonian	6	6	6	......	......
Transportation	1	1	2	1	100%
TOTAL	**1,773**	**1,838**	**2,015**	**177**	**10%**

[1] Includes funds from offsetting collections for the Agency for Healthcare Research and Quality.

[2] Includes funds from both the National Institutes of Health and National Institute of Occupational Safety and Health.

6. FEDERAL INVESTMENT

Investment spending is spending that yields long-term benefits. Its purpose may be to improve the efficiency of internal Federal agency operations or to increase the Nation's overall stock of capital for economic growth. The spending can be direct Federal spending or grants to State and local governments. It can be for physical capital, which yields a stream of services over a period of years, or for research and development or education and training, which are intangible but also increase income in the future or provide other long-term benefits.

Most presentations in the Federal budget combine investment spending with spending for current use. This chapter focuses solely on Federal and federally financed investment.

In this chapter, investment is discussed in the following sections:

- a description of the size and composition of Federal investment spending;
- a discussion of the performance of selected Federal investment programs; and
- a presentation of trends in the stock of federally financed physical capital, research and development, and education.

PART I: DESCRIPTION OF FEDERAL INVESTMENT

For more than fifty years, the Federal budget has included a chapter on Federal investment—defined as those outlays that yield long-term benefits—separately from outlays for current use. In recent years the discussion of the composition of investment has displayed estimates of budget authority as well as outlays.

The classification of spending between investment and current outlays is a matter of judgment. The budget has historically employed a relatively broad classification, encompassing physical investment, research, development, education, and training. The budget further classifies investments into those that are grants to State and local governments, such as grants for highways or education, and all other investments, called "direct Federal programs" in this analysis. This "direct Federal" category consists primarily of spending for assets owned by the Federal Government, such as defense weapons systems and general purpose office buildings, but also includes grants to private organizations and individuals for investment, such as capital grants to Amtrak or higher education loans directly to individuals.

Presentations for particular purposes could adopt different definitions of investment:

- To suit the purposes of a traditional balance sheet, investment might include only those physical assets owned by the Federal Government, excluding capital financed through grants and intangible assets such as research and education.
- Focusing on the role of investment in improving national productivity and enhancing economic growth would exclude items such as national defense assets, the direct benefits of which enhance national security rather than economic growth.
- Concern with the efficiency of Federal operations would confine the coverage to investments that reduce costs or improve the effectiveness of internal Federal agency operations, such as computer systems.
- A "social investment" perspective might broaden the coverage of investment beyond what is included in this chapter to include programs such as childhood immunization, maternal health, certain nutrition programs, and substance abuse treatment, which are designed in part to prevent more costly health problems in future years.

The relatively broad definition of investment used in this section provides consistency over time—historical figures on investment outlays back to 1940 can be found in the separate *Historical Tables* volume. Table 6–2 at the end of this section allows disaggregation of the data to focus on those investment outlays that best suit a particular purpose.

In addition to this basic issue of definition, there are two technical problems in the classification of investment data involving the treatment of grants to State and local governments and the classification of spending that could be shown in more than one category.

First, for some grants to State and local governments it is the recipient jurisdiction, not the Federal Government, that ultimately determines whether the money is used to finance investment or current purposes. This analysis classifies all of the outlays in the category where the recipient jurisdictions are expected to spend most of the money. Hence, the community development block grants are classified as physical investment, although some may be spent for current purposes. General purpose fiscal assistance is classified as current spending, although some may be spent by recipient jurisdictions on investment.

Second, some spending could be classified in more than one category of investment. For example, outlays for construction of research facilities finance the acquisition of physical assets, but they also contribute to research and development. To avoid double counting, the outlays are classified in the category that is most commonly recognized as investment. Consequently, outlays for the conduct of research and development do not include outlays for research facilities, because these outlays are included in the category for physical investment. Similarly, spending for physical investment and research and development related to education and training is included in the categories of physical assets and the conduct of research and development.

When direct loans and loan guarantees are used to fund investment, the subsidy value is included as investment. The subsidies are classified according to their program purpose, such as construction or education and training. For more information about the treatment of Federal credit programs, refer to Chapter 7, "Credit and Insurance," in this volume.

This section presents spending for gross investment, without adjusting for depreciation.

Composition of Federal Investment Outlays

Major Federal Investment

The composition of major Federal investment outlays is summarized in Table 6–1. They include major public physical investment, the conduct of research and development, and the conduct of education and training. Defense and nondefense investment outlays were $429.8 billion in 2007. They are estimated to increase to $482.1 billion in 2008 and $494.2 billion in 2009. Major Federal investment outlays will comprise an estimated 16 percent of total Federal outlays in 2009 and 3.3 percent of the Nation's gross domestic product. Greater detail on Federal investment is available in Table 6–2 at the end of this section. That table includes both budget authority and outlays.

Physical investment. Outlays for major public physical capital investment (hereafter referred to as physical investment outlays) are estimated to be $266.1 billion in 2009. Physical investment outlays are for construction and rehabilitation, the purchase of major equipment, and the purchase or sale of land and structures. Approximately two-thirds of these outlays are for direct physical investment by the Federal Government, with the remainder being grants to State and local governments for physical investment.

Direct physical investment outlays by the Federal Government are primarily for national defense. Defense outlays for physical investment are estimated to be $155.0 billion in 2009. Almost all of these outlays, or an estimated $143.2 billion, are for the procurement of weapons and other defense equipment, and the remainder is primarily for construction on military bases, family housing for military personnel, and Department of Energy defense facilities.

Outlays for direct physical investment for nondefense purposes are estimated to be $35.6 billion in 2009. These outlays include $20.7 billion for construction and rehabilitation. This amount includes funds for water, power, and natural resources projects of the Corps of Engineers, the Bureau of Reclamation within the Department of the Interior, and the Tennessee Valley Authority; construction and rehabilitation of veterans hospitals and Indian Health Service hospitals and clinics; facilities for space and science programs; Postal Service facilities; construction for the administration of justice programs (largely in the Department of Homeland Security); construction of office buildings by the General Services Administration; and construction for embassy security. Outlays for the acquisition of major equipment are estimated to be $14.4 billion in 2009. The largest amounts are for the air traffic control system; weather and climate monitoring in the National Oceanic and Atmospheric Administration; law enforcement activities, largely in the Department of Homeland Security and the Federal Bureau of Investigation; and information systems in the Department of Veterans Affairs.

Grants to State and local governments for physical investment are estimated to be $75.5 billion in 2009. Nearly three-quarters of these outlays, or $55.0 billion, are to assist States and localities with transportation infrastructure, primarily highways. Other major grants for physical investment fund sewage treatment plants, community and regional development, and public housing.

Conduct of research and development. Outlays for the conduct of research and development are estimated to be $139.9 billion in 2009. These outlays are devoted to increasing basic scientific knowledge and promoting research and development. They increase the Nation's security, improve the productivity of capital and labor for both public and private purposes, and enhance the quality of life. More than half of these outlays, an estimated $82.7 billion, are for national defense. Physical investment for research and development facilities and equipment is included in the physical investment category.

Nondefense outlays for the conduct of research and development are estimated to be $57.3 billion in 2009. These are largely for the National Aeronautics and Space Administration, the National Science Foundation, the National Institutes of Health, and research for nuclear and non-nuclear energy programs.

A more complete and detailed discussion of research and development funding can be found in Chapter 5, "Research and Development," in this volume.

Conduct of education and training. Outlays for the conduct of education and training are estimated to be $88.2 billion in 2009. These outlays add to the stock of human capital by developing a more skilled and productive labor force. Grants to State and local governments for this category are estimated to be $53.8 billion in 2009, approximately three-fifths of the total. They include education programs for the disadvantaged and individuals with disabilities, training programs in the Department of Labor, Head Start, and other education programs. Direct Federal education and training outlays are estimated to be $34.4 billion in 2009. Programs in this category primarily consist of aid for higher education through student financial assistance, loan sub-

Table 6–1. COMPOSITION OF FEDERAL INVESTMENT OUTLAYS

(In billions of dollars)

Federal Investment	2007 Actual	Estimate	
		2008	2009
Major public physical capital investment:			
Direct Federal:			
National defense	107.8	141.0	155.0
Nondefense	30.8	37.4	35.6
Subtotal, direct major public physical capital investment	138.7	178.4	190.6
Grants to State and local governments	70.8	76.1	75.5
Subtotal, major public physical capital investment	209.4	254.5	266.1
Conduct of research and development:			
National defense	77.1	78.7	82.7
Nondefense	52.6	55.9	57.3
Subtotal, conduct of research and development	129.7	134.6	139.9
Conduct of education and training:			
Grants to State and local governments	53.7	55.5	53.8
Direct Federal	37.0	37.5	34.4
Subtotal, conduct of education and training	90.7	93.0	88.2
Total, major Federal investment outlays	**429.8**	**482.1**	**494.2**
MEMORANDUM			
Major Federal investment outlays:			
National defense	184.9	219.7	237.7
Nondefense	244.9	262.5	256.5
Total, major Federal investment outlays	429.8	482.1	494.2
Miscellaneous physical investment:			
Commodity inventories	–0.3	–*	–*
Other physical investment (direct)	3.0	3.3	2.9
Total, miscellaneous physical investment	2.7	3.3	2.9
Total, Federal investment outlays, including miscellaneous physical investment	432.5	485.4	497.1

* less than $50 million.

sidies, the veterans GI bill, and health training programs.

This category does not include outlays for education and training of Federal civilian and military employees. Outlays for education and training that are for physical investment and for research and development are in the categories for physical investment and the conduct of research and development.

Miscellaneous Physical Investment

In addition to the categories of major Federal investment, several miscellaneous categories of investment outlays are shown at the bottom of Table 6–1. These items, all for physical investment, are generally unrelated to improving Government operations or enhancing economic activity.

Outlays for commodity inventories are for the purchase or sale of agricultural products pursuant to farm price support programs and other commodities. Sales are estimated to exceed purchases by $29 million in 2009.

Outlays for other miscellaneous physical investment are estimated to be $2.9 billion in 2009. This category consists entirely of direct Federal outlays and includes primarily conservation programs.

Detailed Table on Investment Spending

The following table provides data on budget authority as well as outlays for major Federal investment divided according to grants to State and local governments and direct Federal spending. Miscellaneous investment is not included because it is generally unrelated to improving Government operations or enhancing economic activity.

Table 6–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS

(In millions of dollars)

Description	Budget Authority			Outlays		
	2007 Actual	Estimate 2008	Estimate 2009	2007 Actual	Estimate 2008	Estimate 2009
GRANTS TO STATE AND LOCAL GOVERNMENTS						
Major public physical investments:						
Construction and rehabilitation:						
Transportation:						
Highways	37,176	38,606	28,432	34,373	38,184	40,023
Mass transportation	9,842	9,308	9,982	8,982	10,618	10,850
Rail transportation	....	50	100	....	12	20
Air transportation	3,671	–169	2,750	3,874	2,970	4,090
Subtotal, transportation	50,689	47,795	41,264	47,229	51,784	54,983
Other construction and rehabilitation:						
Pollution control and abatement	2,068	1,677	1,662	1,837	1,441	1,600
Community and regional development	4,978	8,024	3,331	12,110	13,036	9,549
Housing assistance	6,179	6,147	5,599	7,632	7,657	7,513
Other construction	340	444	322	492	438	370
Subtotal, other construction and rehabilitation	13,565	16,292	10,914	22,071	22,572	19,032
Subtotal, construction and rehabilitation	64,254	64,087	52,178	69,300	74,356	74,015
Other physical assets	1,475	1,531	1,262	1,462	1,771	1,470
Subtotal, major public physical capital	65,729	65,618	53,440	70,762	76,127	75,485
Conduct of research and development:						
Agriculture	424	293	202	332	318	324
Other	250	309	253	261	283	246
Subtotal, conduct of research and development	674	602	455	593	601	570
Conduct of education and training:						
Elementary, secondary, and vocational education	36,710	35,772	36,983	36,910	38,098	37,311
Higher education	500	475	337	504	558	494
Research and general education aids	764	794	595	760	802	524
Training and employment	3,320	3,479	3,086	3,223	3,194	3,222
Social services	10,350	10,416	9,653	10,160	10,390	9,707
Agriculture	455	458	436	430	475	511
Other	1,706	1,985	1,994	1,703	1,982	1,997
Subtotal, conduct of education and training	53,805	53,379	53,084	53,690	55,499	53,766
Subtotal, grants for investment	120,208	119,599	106,979	125,045	132,227	129,821
DIRECT FEDERAL PROGRAMS						
Major public physical investment:						
Construction and rehabilitation:						
National defense:						
Military construction and family housing	9,629	12,977	12,825	7,253	9,860	11,412
Atomic energy defense activities and other	555	381	394	630	379	384
Subtotal, national defense	10,184	13,358	13,219	7,883	10,239	11,796
Nondefense:						
International affairs	963	937	1,186	425	1,267	1,781
General science, space, and technology	2,139	2,401	1,385	3,125	3,491	2,897
Water resources projects	3,841	3,760	8,267	3,338	4,447	3,867
Other natural resources and environment	993	927	897	983	975	994
Energy	1,413	2,126	2,440	1,311	2,168	2,491
Postal Service	1,167	1,332	1,028	838	300	250
Transportation	123	93	102	145	147	116
Veterans hospitals and other health facilities	2,528	3,730	4,801	2,172	3,370	3,232
Administration of justice	2,043	2,088	1,261	636	1,479	2,117
GSA real property activities	1,330	1,254	1,322	1,432	1,353	1,604

Table 6–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued

(In millions of dollars)

Description	Budget Authority			Outlays		
	2007 Actual	Estimate		2007 Actual	Estimate	
		2008	2009		2008	2009
Other construction	1,625	1,552	1,008	1,834	1,712	1,355
Subtotal, nondefense	18,165	20,200	23,697	16,239	20,709	20,704
Subtotal, construction and rehabilitation	28,349	33,558	36,916	24,122	30,948	32,500
Acquisition of major equipment:						
National defense:						
Department of Defense	133,907	170,711	104,350	99,693	130,532	142,933
Atomic energy defense activities	408	329	318	281	299	288
Subtotal, national defense	134,315	171,040	104,668	99,974	130,831	143,221
Nondefense:						
General science and basic research	694	655	958	661	660	999
Space flight, research, and supporting activities	105	131	141	110	110	110
Postal Service	2,382	1,454	1,496	1,741	354	525
Air transportation	3,421	3,310	1,438	2,923	3,397	2,630
Water transportation (Coast Guard)	1,294	927	1,135	1,084	1,180	969
Other transportation (railroads)	1,293	1,325	800	1,274	1,417	800
Hospital and medical care for veterans	1,549	2,563	1,432	1,132	2,419	1,176
Law enforcement activities	1,815	1,886	2,079	1,330	1,750	1,959
Department of the Treasury (fiscal operations)	260	315	274	296	279	283
Department of Commerce (NOAA)	939	851	1,092	899	948	1,027
GSA general services funds	822	845	876	780	845	876
Other	1,904	2,785	3,259	1,987	2,715	3,083
Subtotal, nondefense	16,478	17,047	14,980	14,217	16,074	14,437
Subtotal, acquisition of major equipment	150,793	188,087	119,648	114,191	146,905	157,658
Purchase or sale of land and structures:						
National defense	–17	–33	–16	–31	–80	2
Natural resources and environment	176	195	126	214	224	193
General government	164	156	150	159	156	150
Other	13	310	19	6	243	76
Subtotal, purchase or sale of land and structures	336	628	279	348	543	421
Subtotal, major public physical investment	179,478	222,273	156,843	138,661	178,396	190,579
Conduct of research and development:						
National defense:						
Defense military	78,269	80,050	80,337	73,716	75,240	79,084
Atomic energy and other	3,328	3,415	3,565	3,362	3,439	3,590
Subtotal, national defense	81,597	83,465	83,902	77,078	78,679	82,674
Nondefense:						
International affairs	246	255	255	248	269	273
General science, space, and technology:						
NASA	9,129	9,472	8,116	8,508	9,408	9,597
National Science Foundation	3,992	4,029	4,758	3,569	4,005	4,156
Department of Energy	3,108	3,206	3,533	3,114	3,202	3,533
Other general science, space, and technology	843	693	737	1,014	693	735
Subtotal, general science, space, and technology	17,318	17,655	17,399	16,453	17,577	18,294
Energy	1,405	2,452	2,503	1,249	2,449	2,588
Transportation:						
Department of Transportation	678	747	815	682	734	729
NASA	705	604	446	614	608	560
Other	17	25	16	20	18	17
Subtotal, transportation	2,805	3,828	3,780	2,565	3,809	3,894

Table 6–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued

(In millions of dollars)

Description	Budget Authority			Outlays		
	2007 Actual	Estimate 2008	Estimate 2009	2007 Actual	Estimate 2008	Estimate 2009
Health:						
National Institutes of Health	28,165	28,570	28,555	27,058	27,688	28,371
All other health	686	561	562	846	469	548
Subtotal, health	28,851	29,131	29,117	27,904	28,157	28,919
Agriculture	1,418	1,544	1,411	1,433	1,476	1,424
Natural resources and environment	1,916	1,908	1,965	1,632	1,645	1,714
National Institute of Standards and Technology	400	385	418	394	456	453
Hospital and medical care for veterans	892	960	884	808	924	888
All other research and development	1,078	1,100	1,088	829	1,234	1,114
Subtotal, nondefense	54,678	56,511	56,062	52,018	55,278	56,700
Subtotal, conduct of research and development	136,275	139,976	139,964	129,096	133,957	139,374
Conduct of education and training:						
Elementary, secondary, and vocational education	1,359	1,412	1,375	1,460	1,605	1,325
Higher education	26,455	26,029	23,135	24,538	24,572	21,500
Research and general education aids	1,898	2,015	2,252	1,971	1,833	2,008
Training and employment	2,207	1,735	1,936	2,102	1,960	2,200
Health	1,410	1,463	959	1,404	1,410	1,256
Veterans education, training, and rehabilitation	3,266	3,773	3,582	3,456	3,719	3,897
General science and basic research	917	927	1,001	900	1,026	1,008
International affairs	513	520	551	477	494	535
Other	641	671	638	703	925	701
Subtotal, conduct of education and training	38,666	38,545	35,429	37,011	37,544	34,430
Subtotal, direct Federal investment	354,419	400,794	332,236	304,768	349,897	364,383
Total, Federal investment	474,627	520,393	439,215	429,813	482,124	494,204

PART II: PERFORMANCE OF FEDERAL INVESTMENT

Introduction. In recent years there has been increased emphasis on improving the performance of Government programs. This emphasis began with the Government Performance and Results Act of 1993, which requires agencies to prepare strategic plans and annual performance plans, and then report on their actual performance results annually.

This Administration set out to ensure that agencies worked to improve their performance, not just report on it. Beginning in the 2004 Budget, the Administration began to assess every Federal program by a method known as the Program Assessment Rating Tool, or PART. The Administration set a target of assessing all Federal programs over five years. With this budget, the sixth year of using the PART, the Administration has assessed more than 1,000 programs, approximately 98 percent of the Federal budget.

The PART assesses each program in four components (purpose, planning, management, and results/accountability) and gives a score for each of the components. The scores for each component are then weighted—results/accountability carries the greatest weight—and the program is given an overall score. A program is rated Effective if it receives an overall score of 85 percent or more, Moderately Effective if the score is 70 to 84 percent, Adequate if the score is 50 to 69 percent, and Inadequate if the score is 49 percent or lower. The program may receive a rating "Results Not Demonstrated" if it does not have a good long-term and annual performance measure or does not have data to report on its measures. Chapter 2 of this volume discusses the PART concepts in more detail.

This section summarizes the results of the PART for direct investment programs, defined to include capital assets, research and development, and education and training. Because an entire program is assessed, not just the investment portion of the program, the assessments for some programs may cover more than just the investment spending. The funding amounts in this section are estimates from the 2007 spring update of PART programs. PART assessments of programs that are grants to State and local governments are not summarized in this chapter but are summarized in Chapter

8, "Aid to State and Local Governments," in this volume.

This section summarizes 241 programs:

- Programs for capital assets are essentially those identified in the PART system as "capital assets and service acquisition" (93 programs);
- Programs for research and development are essentially those identified in the PART system as "research and development" (117 programs); and
- Programs for education and training (31 programs) are primarily programs in the Department of Education (e.g., Federal Pell Grants) that are not grants to State and local governments. This category also includes programs in other agencies, such as the Montgomery GI Bill in the Department of Veterans Affairs, the Health Professions program in the Department of Health and Human Services, and the Job Corps program in the Department of Labor.

Information on these and other programs assessed by PART is at *www.ExpectMore.gov*.

Summary of ratings. Table 6–3 shows that, for the 241 investment programs that have been rated by PART, the average rating was "Moderately Effective". Of these programs:

- 53 were rated Effective;
- 82 were rated Moderately Effective;
- 62 were rated Adequate;
- 7 were rated Ineffective; and
- 37 were rated Results Not Demonstrated.

Table 6–3. SUMMARY OF PART RATINGS AND SCORES FOR DIRECT FEDERAL INVESTMENT PROGRAMS

(Excludes grants to State and local governments for investment)

Criteria	Type of Investment			
	Physical capital	Research and development	Education and training	All investment programs
	Average scores			
Purpose	84%	92%	78%	87%
Planning	81%	83%	72%	80%
Management	84%	87%	73%	84%
Results/Accountability	56%	59%	36%	55%
Weighted Average [1]	69%	74%	55%	70%
Average Rating	Adequate	Moderately Effective	Adequate	Moderately Effective
	Number of Programs			
Ratings [2]				
Effective	19	32	2	53
Moderately effective	32	47	3	82
Adequate	23	23	16	62
Ineffective	2	2	3	7
Results not demonstrated	17	13	7	37
Total number of investment programs rated	93	117	31	241

[1] Weighted as follows: Purpose (20 percent), Planning (10 percent), Management (20 percent), Results/Accountability (50 percent).

[2] The rating of effective indicates a score of 85 percent or more; moderately effective, 70–84 percent; adequate, 50–69 percent; and ineffective, 49 percent or less.

Assessments of individual programs. The ratings of ten of the largest physical capital and education and training investment programs are summarized here. Information on research and development is in Chapter 5, "Research and Development" in this volume.

Capital Assets

Department of Defense (DoD). Air Combat Program ($13.6 billion in 2007). Rating: *Moderately Effective*. The purpose of this program is to enable DoD to successfully wage war in the air by developing and producing a variety of tactical fighter and strike aircraft.

DoD's management of the overall air combat program is currently based on the extensive system of regulations governing how individual acquisition programs are managed. Through these regulations DoD tracks the progress of individual programs and can hold managers accountable for their programs. DoD's individual programs within the overall air combat program are delivering aircraft at targeted rates, but in several cases, such as the F/A–22, at greater cost than projected.

Department of Defense. Navy Shipbuilding ($13.2 billion in 2007). Rating: *Adequate*. This program buys new ships and overhauls existing ships. New ships are built at six privately-owned shipyards. Overhauls of existing ships are performed at both privately-owned and publicly-owned shipyards. The Navy currently has 280 ships in the fleet.

The Navy has specific cost, schedule, and performance goals for each shipbuilding program. The Navy conducts periodic reviews of programs at major milestones of development and uses a structured reporting regime to help monitor the status of ship cost, schedule, and performance. The Navy has experienced cost increases and schedule slips on some ship construction programs, although overall performance is adequate.

Department of Defense. Future Combat Systems/ Modularity Land Warfare ($10.0 billion in 2007). Rating: *Moderately Effective.* The Army's complementary transformation initiatives, Modularity and the Future Combat Systems, are designed to provide regional combatant commanders and soldiers with a lighter, faster, more survivable and rapidly deployable force with which to fight and win the United States' current and future land conflicts.

Although the Future Combat Systems program is currently on schedule and on cost, the program's long schedule, significant cost, and technological complexity put Future Combat Systems at substantial risk of cost and schedule overruns as the program moves from research and development to acquisition.

Department of Defense. Missile Defense ($9.4 billion in 2007). Rating: *Adequate*. The mission of the Missile Defense Agency (MDA) is to defend the United States, deployed forces, and allies from ballistic missile attack. MDA is researching, developing and fielding a global, integrated and multi-layered Ballistic Missile Defense System (BMDS), comprising multiple sensors, interceptors and battle management capabilities.

MDA's strategic planning, resource allocation and management oversight activities are properly aligned to accomplish stated mission objectives. MDA budget requests and human resource management activities are explicitly tied to appropriate performance goals. MDA leaders regularly review and evaluate a wide array of performance data to inform and guide their decisionmaking.

Department of Defense. Marine Corps Expeditionary Warfare. ($9.3 billion in 2007). Rating: *Moderately Effective*. Expeditionary warfare is the temporary use of Marine Corps force in foreign countries. The expeditionary warfare program consists of specific investment programs for aviation assets, amphibious ships, weapons systems, equipment, vehicles, ammunition, and research and development.

The Department of Defense (DoD) has articulated a limited number of long-term performance measures for the expeditionary warfare program in response to an earlier assessment. DoD has identified goals related to Joint and Coalition Proficiency, Operational Reach, Force Projection, Sustainability, and Operational and Organizational Adaptability for the expeditionary warfare capability.

Department of Defense. Rotary Wing Program ($8.8 billion in 2007). Rating: *Adequate.* The purpose of the Department of Defense's (DoD's) rotary wing aircraft fleet is to develop and procure an inventory of rotary wing aircaft that provides the capabilities needed to satisfy the mission requirements of US forces. Each type of rotary wing aircraft satisfies specific mission requirements to enable US forces to respond effectively to the full spectrum of military operations. Targets and timeframes for fielding new rotary wing aircraft have been developed for all programs, and are considered ambitious in light of the engineering challenges associated with developing and building rotary wing aircraft. The heavy use of rotary wing aircraft in the Global War on Terror has increased the need to field new and upgraded aircraft as quickly as possible to support forces in theaters of operations.

Tennessee Valley Authority. Tennessee Valley Authority Power ($8.8 billion in 2007). Rating: *Moderately Effective.* The Tennessee Valley Authority (TVA) is the Nation's largest public power company. Through 158 locally owned distributors, TVA provides power to nearly 8.5 million residents of the Tennessee Valley. Some of TVA's former performance measures such as cents/ KWH are no longer tracked. It is unclear how some of the new efficiency measures tracked by TVA relate to program performance.

Department of Defense (DoD). Military Construction Programs ($7.5 billion in 2007). Rating: *Moderately Effective*. This program funds buildings, structures, utilities, and land to meet defense requirements on military installations to improve quality of life and enhance military capabilities. The military construction program spans 2,965 domestic sites and 766 overseas sites. At any given time over 1,500 projects are underway. Projects proposed for funding in the President's Budget are selected as a result of a rigorous competitive and selective process. Each project undergoes requirement, solutions and costs analysis prior to formal programming into the Budget.

The military construction program is executed by DoD construction agents—United States Army Corps of Engineers, Naval Facilities Engineering Command, and Air Force Center for Environmental Excellence. The program accounts for the full cost of projects, which include planning and designing a project, project costs, and supervision, inspection, and overhead of the project.

Department of Defense (DoD). Airlift Program ($6.9 billion in 2007). Rating: *Moderately Effective*. The purpose of this program is to enable DoD to move large amounts of personnel and materiel to, and within, remote locations in short periods of time by developing and producing a variety of airlift aircraft. The program has a long-term goal of providing a strategic airlift capacity of 54.5 million ton miles per day. DoD is attempting to achieve that goal through the construction of airlift aircraft—primarily the Air Force's C-17.

The airlift investment program is nearing completion of the first phase of the C-17 program which has increased airlift capabilities. However, the program has still not met its target capacity. Attainment of the inter-theater airlift capability is dependent on fielding new C-17s, retiring the aging C-141 fleet, and eventual fielding of C-5 Reliability Enhancement & Reengining Program (RERP) aircraft. Deliveries of the C-130J will increase intra-theater capabilities.

Education

Department of Education. Federal Pell Grants ($13.7 billion in 2007). Rating: *Adequate*. This program helps ensure access to postsecondary education for undergraduate students by providing need-based grants that, in combination with other sources of student aid, help meet education costs. The program also promotes lifelong learning by encouraging low-income adults to return to school.

The program has meaningful performance measures and outcome data on these measures such as the degree to which Pell Grants are targeted to low-income students. New measures such as enrollment and graduation rates among low-income and minority students have also been added. The program has met its current long-term performance goals and new measures will help track other key program goals.

PART III: FEDERALLY FINANCED CAPITAL STOCKS

Federal investment spending creates a "stock" of capital that is available for future productive use. Each year, Federal investment outlays add to this stock of capital. At the same time, however, wear and tear and obsolescence reduce it. This section presents very rough measures over time of three different kinds of capital stocks financed by the Federal Government: public physical capital, research and development (R&D), and education.

Federal spending for physical assets adds to the Nation's capital stock of tangible assets, such as roads, buildings, and aircraft carriers. These assets deliver a flow of services over their lifetime. The capital depreciates as the asset ages, wears out, is accidentally damaged, or becomes obsolete.

Federal spending for the conduct of R&D adds to an "intangible" asset, the Nation's stock of knowledge. Spending for education adds to the stock of human capital by providing skills that help make people more productive. Although financed by the Federal Government, the R&D or education can be carried out by Federal or State government laboratories, universities and other nonprofit organizations, local governments, or private industry. R&D covers a wide range of activities, from the investigation of subatomic particles to the exploration of outer space; it can be "basic" research without particular applications in mind, or it can have a highly specific practical use. Similarly, education includes a wide variety of programs, assisting people of all ages beginning with pre-school education and extending through graduate studies and adult education. Like physical assets, the capital stocks of R&D and education provide services over a number of years and depreciate as they become outdated.

For this analysis, physical and R&D capital stocks are estimated using the perpetual inventory method. Each year's Federal outlays are treated as gross investment, adding to the capital stock; depreciation reduces the capital stock. Gross investment less depreciation is net investment. The estimates of the capital stock are equal to the sum of net investment in the current and prior years. Conversely, the year-to-year change in the capital stock estimates is annual net investment. A limitation of the perpetual inventory method is that the original investment spending may not accurately measure the current value of the asset created, even after adjusting for inflation, because the value of existing capital changes over time due to changing market conditions. However, alternative methods for measuring asset value, such as direct surveys of current market worth or indirect estimation based on an expected rate of return, are especially difficult to apply to assets that do not have a private market, such as highways or weapons systems.

In contrast to physical and R&D stocks, the estimate of the education stock is based on the replacement cost method. Data on the total years of education of the U.S. population are combined with data on the current cost of education and the Federal share of education spending to yield the cost of replacing the Federal share of the Nation's stock of education.

It should be stressed that these estimates are rough approximations, and provide a basis only for making broad generalizations. Errors may arise from uncertainty about the useful lives and depreciation rates of different types of assets, incomplete data for historical outlays, and imprecision in the deflators used to express costs in constant dollars. The methods used to estimate capital stocks are discussed further in the technical note at the end of Chapter 13, "Stewardship," in this volume. Additional detail about these methods appeared in a methodological note in Chapter 7, "Federal Investment Spending and Capital Budgeting," in the *Analytical Perspectives* volume of the 2004 Budget.

The Stock of Physical Capital

This section presents data on stocks of physical capital assets and estimates of the depreciation of these assets.

Trends. Table 6–4 shows the value of the net federally financed physical capital stock since 1960, in constant fiscal year 2000 dollars. The total stock grew at a 2.2 percent average annual rate from 1960 to 2007, with periods of faster growth during the late 1960s and the 1980s. The stock amounted to $2,385 billion in 2007 and is estimated to increase to $2,483 billion by 2009. In 2007, the national defense capital stock accounted for $727 billion, or 30 percent of the total, and nondefense stocks for $1,658 billion, or 70 percent of the total.

Table 6–4. NET STOCK OF FEDERALLY FINANCED PHYSICAL CAPITAL

(In billions of 2000 dollars)

Fiscal Year	Total	National Defense	Total Non-defense	Direct Federal Capital			Capital Financed by Federal Grants				
				Total	Water and Power	Other	Total	Transpor-tation	Commu-nity and Re-gional	Natural Re-sources	Other
Five year intervals:											
1960	849	608	242	95	59	36	146	89	27	21	10
1965	937	589	348	123	74	49	225	158	32	22	13
1970	1,101	630	470	146	88	58	324	230	47	26	21
1975	1,137	545	592	166	102	64	426	282	76	42	25
1980	1,258	494	763	195	123	72	568	342	121	79	27
1985	1,462	572	890	222	136	86	668	397	146	100	26
1990	1,740	722	1,018	256	147	109	762	462	158	113	28
1995	1,882	714	1,168	297	157	141	871	534	168	123	46
Annual data:											
2000	1,979	635	1,345	337	160	178	1,007	618	183	131	75
2001	2,023	631	1,391	351	163	188	1,040	640	186	132	81
2002	2,078	636	1,442	366	165	201	1,076	666	189	134	87
2003	2,138	646	1,492	380	166	213	1,112	690	193	135	94
2004	2,198	662	1,536	390	168	223	1,146	714	196	136	100
2005	2,256	680	1,575	400	168	232	1,176	736	198	137	105
2006	2,316	701	1,614	410	169	240	1,205	758	199	138	109
2007	2,385	727	1,658	422	171	252	1,236	779	205	139	113
2008 est	2,413	753	1,660	422	173	250	1,238	780	206	138	113
2009 est	2,483	785	1,698	432	173	259	1,266	802	209	139	117

Real stocks of defense and nondefense capital show very different trends. Nondefense stocks have grown consistently since 1970, increasing from $470 billion in 1970 to $1,658 billion in 2007. With the investments proposed in the budget, nondefense stocks are estimated to grow to $1,698 billion in 2009. During the 1970s, the nondefense capital stock grew at an average annual rate of 5.0 percent. In the 1980s, however, the growth rate slowed to 2.9 percent annually, with growth continuing at about that rate since then.

Real national defense stocks began in 1970 at a relatively high level, and declined steadily throughout the decade as depreciation from investment in the Vietnam era exceeded new investment in military construction and weapons procurement. Starting in the early 1980s, a large defense buildup began to increase the stock of defense capital. By 1987, the defense stock exceeded its earlier Vietnam-era peak. In the early 1990s, however, depreciation on the increased stocks and a slower pace of defense physical capital investment began to reduce the stock from its previous levels. The increased defense investment in the last few years has reversed this decline, increasing the stock from a low of $631 billion in 2001 to $785 billion in 2009.

Another trend in the Federal physical capital stocks is the shift from direct Federal assets to grant-financed assets. In 1960, 39 percent of federally financed nondefense capital was owned by the Federal Government, and 61 percent was owned by State and local governments but financed by Federal grants. Expansion in Federal grants for highways and other State and local capital, coupled with slower growth in direct Federal investment for water resources, for example, shifted the composition of the stock substantially. In 2007, 25 percent of the nondefense stock was owned by the Federal Government and 75 percent by State and local governments.

The growth in the stock of physical capital financed by grants has come in several areas. The growth in the stock for transportation is largely grants for highways, including the Interstate Highway System. The growth in community and regional development stocks occurred largely following the enactment of the community development block grant in the early 1970s. The value of this capital stock has grown only slowly in the past few years. The growth in the natural resources area occurred primarily because of construction grants for sewage treatment facilities. The value of this federally financed stock has increased about 40 percent since the mid-1980s.

The Stock of Research and Development Capital

This section presents data on the stock of research and development (R&D) capital, taking into account adjustments for its depreciation.

Trends. As shown in Table 6–5, the R&D capital stock financed by Federal outlays is estimated to be $1,166 billion in 2007 in constant 2000 dollars. Roughly half is the stock of basic research knowledge; the remainder is the stock of applied research and development.

The nondefense stock accounted for about three-fifths of the total federally financed R&D stock in 2007. Although investment in defense R&D has exceeded that of nondefense R&D in nearly every year since 1981, the nondefense R&D stock is actually the larger of the two, because of the different emphasis on basic research and applied research and development. Defense R&D

spending is heavily concentrated in applied research and development, which depreciates much more quickly than basic research. The stock of applied research and development is assumed to depreciate at a ten percent geometric rate, while basic research is assumed not to depreciate at all.

The defense R&D stock rose slowly during the 1970s, as gross outlays for R&D trended down in constant dollars and the stock created in the 1960s depreciated. Increased defense R&D spending from 1980 through 1990 led to a more rapid growth of the R&D stock. Subsequently, real defense R&D outlays tapered off, depreciation grew, and, as a result, the real net defense R&D stock stabilized at around $420 billion. Renewed spending for defense R&D in recent years has begun to increase the stock, and it is projected to increase to $483 billion in 2009.

The growth of the nondefense R&D stock slowed from the 1970s to the 1980s, from an annual rate of 3.8 percent in the 1970s to a rate of 2.1 percent in the 1980s. Gross investment in real terms fell during much of the 1980s, and about three-fourths of new outlays went to replacing depreciated R&D. Since 1988, however, nondefense R&D outlays have been on an upward trend while depreciation has edged down. As a result, the net nondefense R&D capital stock has grown more rapidly.

Table 6–5. NET STOCK OF FEDERALLY FINANCED RESEARCH AND DEVELOPMENT [1]

(In billions of 2000 dollars)

Fiscal Year	National Defense			Nondefense			Total Federal		
	Total	Basic Research	Applied Research and Development	Total	Basic Research	Applied Research and Development	Total	Basic Research	Applied Research and Development
Five year intervals:									
1970	261	16	245	215	67	148	475	82	393
1975	276	21	255	262	97	165	538	118	421
1980	279	25	255	311	131	179	590	156	434
1985	321	30	291	339	174	165	659	204	455
1990	403	36	366	383	228	154	785	264	521
1995	423	43	380	461	293	168	883	336	548
Annual data:									
2000	423	48	375	542	367	175	965	416	550
2001	421	50	370	563	386	177	984	436	548
2002	420	52	368	587	406	181	1,006	458	549
2003	423	53	370	613	427	186	1,036	480	555
2004	428	54	374	639	449	190	1,067	503	564
2005	442	56	386	660	469	191	1,102	525	577
2006	454	57	397	681	489	192	1,136	546	590
2007	464	58	406	702	509	193	1,166	567	599
2008 est	473	59	414	723	530	193	1,196	589	607
2009 est	483	61	422	745	551	194	1,228	612	616

[1] Excludes stock of physical capital for research and development, which is included in Table 6–4.

The Stock of Education Capital

This section presents estimates of the stock of education capital financed by the Federal Government.

As shown in Table 6–6, the federally financed education stock is estimated at $1,473 billion in 2007 in constant 2000 dollars. The vast majority of the Nation's education stock is financed by State and local governments, and by students and their families themselves. This federally financed portion of the stock represents about 3 percent of the Nation's total education stock.[1] Nearly three-quarters is for elementary and secondary education, while the remainder is for higher education.

The federally financed education stock has grown steadily in the last few decades, with an average annual growth rate of 5.1 percent from 1970 to 2007. The expansion of the education stock is projected to continue under this budget, with the stock rising to $1,662 billion in 2009.

[1] For estimates of the total education stock, see table 13–5 in Chapter 13, "Stewardship."

Table 6–6. NET STOCK OF FEDERALLY FINANCED EDUCATION CAPITAL

(In billions of 2000 dollars)

Fiscal Year	Total Education Stock	Elementary and Secondary Education	Higher Education
Five year intervals:			
1960	71	51	20
1965	102	74	28
1970	234	184	50
1975	349	282	67
1980	482	379	103
1985	577	434	143
1990	733	546	188
1995	878	641	237
Annual data:			
2000	1,135	827	308
2001	1,189	864	325
2002	1,236	899	337
2003	1,279	932	347
2004	1,327	959	368
2005	1,364	993	371
2006	1,414	1,016	399
2007	1,473	1,063	410
2008 est	1,565	1,140	425
2009 est	1,662	1,226	436

7. CREDIT AND INSURANCE

The Federal Government offers direct loans and loan guarantees to support a wide range of activities including housing, education, business and community development, and exports. At the end of 2007, there were $260 billion in Federal direct loans outstanding and $1,202 billion in loan guarantees. Through its insurance programs, the Federal Government insures bank, thrift, and credit union deposits, guarantees private defined-benefit pensions, and insures against some other risks such as natural disasters.

The Federal Government also permits certain privately owned companies, called Government-Sponsored Enterprises (GSEs), to operate under Federal charters for the purpose of enhancing credit availability for targeted sectors. GSEs increase liquidity by guaranteeing and securitizing loans, as well as by providing direct loans. In return for advancing certain social goals and possibly improving economic efficiency, GSEs enjoy various privileges, such as possible borrowing from Treasury at Treasury's discretion, exemption from State and local income taxation, and favorable regulatory treatments of their securities. These privileges may leave observers with the impression that GSE securities are risk-free. GSEs, however, are not part of the Federal Government, and GSE securities are not federally guaranteed. By law, GSE securities carry a disclaimer of any U.S. obligation.

This chapter discusses the roles of these diverse programs and assesses their effectiveness and efficiency.

- The first section emphasizes the roles of Federal credit and insurance programs in addressing market imperfections that may prevent the private market from efficiently providing credit and insurance. Although the continued evolution and deepening of financial markets may have in part corrected many of the imperfections, Federal programs can still play a significant role in the areas where market imperfections remain serious and at the times when some adverse events disrupt the smooth functioning of the market.
- The second section interprets the results of the Program Assessment Rating Tool (PART) for credit and insurance programs in relation to their distinguishing features.
- The third section presents a special topic—the structure of financial regulation which can influence financial institutions' competitiveness and ability to innovate.
- The fourth section discusses individual credit programs and GSEs intended to support four sectors: housing, education, business and community development, and exports. The discussion focuses on program objectives, recent developments, performance, and future plans for each program.
- In a similar format, the final section reviews Federal deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism and other security-related risks.

I. FEDERAL PROGRAMS IN CHANGING FINANCIAL MARKETS

The Federal Role

In most cases, private lending and insurance companies efficiently meet economic demands by allocating resources to their most productive uses. Market imperfections, however, can cause inadequate provision of credit or insurance in some sectors. Federal credit and insurance programs improve economic efficiency if they effectively fill the gaps created by market imperfections. On the other hand, Federal credit and insurance programs that do not effectively address market imperfections can be unnecessary, or can even be counter-productive—they may simply do what the private sector would have done in their absence, or interfere with what the private sector would have done better. Federal credit and insurance programs also help disadvantaged groups. This role alone, however, may not be enough to justify credit and insurance programs; for helping disadvantaged groups, direct subsidies are generally more effective and less distortionary.

Relevant market imperfections include insufficient information, limited ability to secure resources, insufficient competition, and externalities. Although these imperfections can cause inefficiencies, the presence of a market imperfection does not mean that Government intervention will always be effective. To be effective, a credit or insurance program should be carefully designed to reduce inefficiencies in the targeted area without causing inefficiencies elsewhere.

Insufficient Information. Financial intermediaries may fail to allocate credit to the most deserving borrowers if there is little objective information about some of the borrowers. Some groups of borrowers, such as start-up businesses and some families, have limited incomes and credit histories. Many creditworthy borrowers belonging to these groups may fail to obtain credit or be forced to pay excessively high interest. For very irregular events, such as natural and man-made disasters, there may not be sufficient information to estimate the probability and magnitude of the loss. This pricing difficulty may prevent insurers from covering those risks at reasonable premiums.

Limited Ability to Secure Resources. The ability of private entities to absorb losses is more limited than that of the Federal Government, which has general taxing authority. For some events potentially involving a very large loss concentrated in a short time period, therefore, Government insurance commanding more resources can be more reliable. Such events include massive bank failures and some natural and man-made disasters that can threaten the solvency of private insurers.

Insufficient Competition. Competition can be insufficient in some markets because of barriers to entry or economies of scale. Insufficient competition may result in unduly high prices of credit and insurance in those markets.

Externalities. Decisions at the individual level are not socially optimal when individuals do not capture the full benefit (positive externalities) or bear the full cost (negative externalities) of their activities. Education, for example, generates positive externalities because the general public benefits from the high productivity and good citizenship of a well-educated person. Without Government intervention, people will engage less than socially optimal in activities that generate positive externalities and more in activities that generate negative externalities.

Financial Market Developments

Financial markets have become much more efficient through technological advances and financial services deregulation. By facilitating the gathering and processing of information and lowering transaction costs, technological advances have significantly contributed to improving the screening of credit and insurance applicants, enhancing liquidity, refining risk management, and spurring competition. Deregulation has increased competition and prompted efficiency-improving consolidation by removing geographic and industry barriers.

These changes have reduced market imperfections. The private market now has more information and better technology to process it; it has better means to secure resources; and it is more competitive. As a result, the private market is more willing and able to serve a portion of the population traditionally targeted by Federal programs. The benefits of technological advances and deregulation, however, have been uneven across sectors and populations. To remain effective, therefore, Federal credit and insurance programs should focus more narrowly on those sectors that have been less affected by financial evolution and those populations that still have difficulty in obtaining credit or insurance from private lenders. The Federal Government should also pay more attention to new challenges introduced by financial evolution and other economic developments. Even those changes that are beneficial overall often bring new risks and challenges.

The role for the Federal government in addressing the information problem has diminished steadily over the years. Nowadays, lenders and insurers have easy access to large databases, powerful computing devices, and sophisticated analytical models. This advancement in communication and information processing technology enables lenders to evaluate risk more objectively and accurately. As a result, most borrowers can easily obtain credit at a fair interest rate reflecting their risk. The improvement, however, may be uneven across sectors. Credit scoring (an automated process that converts relevant borrower characteristics into a numerical score indicating creditworthiness), for example, is considered as a breakthrough in borrower screening. While credit scoring is widely applied to home mortgages and consumer loans, it is applied to a limited extent for small business loans and agricultural loans due to the difficulty of standardizing unique characteristics of small businesses and farmers. It is also possible that banking consolidation adversely affects those borrowers with unique characteristics; small, local banks could serve those borrowers better if they had more borrower-specific information gained through long-term relations. With technological advances such as computer simulation, pricing catastrophe risks has become easier, but it remains much more difficult than pricing more regular events such as automobile accidents. It is still difficult for insurers to estimate with confidence the probability of a major natural disaster occurring. The difficulty may be greater for man-made disasters that lack scientific bases.

Financial evolution has also improved private insurers' ability to deal with catastrophic losses. Using financial derivatives such as options, swaps, and futures, private entities can manage and share various types of risk such as price risk, interest rate risk, credit risk, and even catastrophe-related risk. An insurer can distribute the risk of a natural or man-made catastrophe among a large number of investors through catastrophe-related derivatives. However, the market for catastrophe-related derivatives is still small, and it has not eliminated the difficulty of absorbing catastrophic losses yet.

Insufficient competition is much less likely to justify Federal involvement than was the case only a few years ago due to financial deregulation and improved communication and financing technology. Financial deregulation removed geographic and industry barriers to competition. As a result, major financial holding companies offer both banking and insurance products nationwide. Internet-based financial services have further lowered the cost of financial transactions and reduced the importance of physical location. These developments have been especially beneficial to small and geographically isolated customers who could not afford to bear large transactions costs and otherwise had limited access to financial services. In addition, there are more financing alternatives for both commercial and individual borrowers that used to rely heavily on banks. Venture capital, for example, has become a much more important financing source for small businesses. Finance companies have also become a prominent player both in business and consumer financing.

Problems related to externalities may persist because the price mechanisms that drive the private market by definition ignore the value of externalities. Externalities, however, are a general market failure, rather than a financial market failure. Thus, credit and insurance programs are not necessarily the best means to address externalities, and their effectiveness should be compared with other forms of Government intervention, such as tax incentives and grants. In particular, if a credit program was initially intended to address multiple problems, including externalities, and those other problems have been alleviated, there may be a better way to address any remaining externalities.

Overall, the financial market has become more efficient and stable. Financial evolution and other economic developments, however, are often accompanied by new risks, as evidenced by the current difficulties resulting from the rapid expansion of subprime mortgages. Subprime mortgages are a product of several innovations, such as consumer credit scoring, securitization, and credit ratings on securities. Properly used, subprime mortgages are a beneficial tool helping disadvantaged families to become homeowners. Misjudgments and some imperfections in financing techniques appear to have led to overextension of subprime mortgages. For example, while securitization facilitates the funding of mortgages, it also reduces mortgage originators' incentives to screen borrowers carefully because securitized loans are off their balance sheets. Investors having relied on credit ratings appear to have been misguided by high ratings on some complex mortgage-backed securities that with the benefit of hindsight were too optimistic. Few financial models are perfect. In addition, rating agencies' incentives to protect investors may have been attenuated by the fees they collect from security issuers. These developments suggest that Federal agencies need to be vigilant to identify and manage new risks to the economy and to the Budget, arising from financial evolution.

Recent financial market instability presents both opportunities and challenges to Federal programs. Market disruptions have reduced private liquidity and credit availability temporarily. In this situation, Federal programs can produce larger net benefits. GSEs may inject more liquidity into the financial market, and credit programs may accommodate more deserving borrowers who are having difficulties in obtaining credit in the private market. Challenges include identifying the areas where the true needs are (e.g., identifying deserving borrowers), selecting the most effective tools, avoiding distortion of private sector credit markets, and avoiding excessive burden on taxpayers. To ensure significant net benefits, these issues need to be addressed effectively.

II. PERFORMANCE OF CREDIT AND INSURANCE PROGRAMS

The Program Assessment Rating Tool (PART) has rated 38 credit programs and nine insurance programs. The PART evaluates programs in four areas (program purpose and design, strategic planning, program management, and program results) and assigns a numerical score (0 to 100) to each category. The overall rating (effective, moderately effective, adequate, ineffective, or results not demonstrated) is determined based on the numerical scores and the availability of reliable data.

The ratings for credit and insurance programs are clustered around the middle; 77 percent of credit and insurance programs (compared with 59 percent for other programs) are rated "adequate" or "moderately effective," while only 11 percent (18 percent for other programs) are rated "effective." These results suggest that most credit and insurance programs meet basic standards, but need to improve.

Some key features distinguish credit and insurance programs from other programs. Credit and insurance programs are intended to address imperfections in financial markets. They also face various risks, such as uncertain default rates and erratic claim rates. Interpreting PART results in relation to these features should help to identify fundamental problems and to devise effective solutions.

Program Purpose and Design. To be effective, credit and insurance programs should serve those who deserve to be served but are left out by the private market due to market imperfections. Extending credit to those who are not creditworthy, for example, would result in economic inefficiencies and large budget costs. Lending to those who can obtain credit at a reasonable rate in the private market would be unnecessary and

SUMMARY OF PART SCORES

	Purpose and Design	Strategic Planning	Program Management	Program Results
Credit and Insurance Programs				
Average	80.0	76.9	85.8	55.7
Standard Deviation	19.4	23.4	18.1	19.0
All Others Excluding Credit and Insurance Programs				
Average	87.6	75.8	83.0	48.9
Standard Deviation	18.2	24.3	17.7	26.4

might interfere with the market mechanism. To achieve intended outcomes without causing unintended consequences, therefore, credit and insurance programs need to be carefully designed; they should target the intended beneficiaries, and all parties in the transaction should face the correct incentives.

The PART indicates that most credit and insurance programs have clear purposes (not necessarily economically justifiable purposes) and address specific needs. Many credit and insurance programs, however, fail to score high in program design. Some are duplicative of other federal programs or private sources, and some offer inadequate incentive structures.

Strategic Planning. Financial markets have been evolving to serve target populations of Federal programs better and increasingly apply advanced technologies to risk assessments. Credit and insurance programs need to adapt to these new developments quickly. Falling behind, Federal programs can be left with many beneficiaries that do not really need Government help and with those that may pose greater risk.

In subcategories of strategic planning, while most credit and insurance programs effectively execute short-term strategies, they are less effective in pursuing long-term goals which may be more critical in adapting to new developments. Other weaknesses are found in conducting stringent performance evaluation and tying budgets to performance outcomes.

Program Management. Risk management is a critical element of credit and insurance programs. Cash flows are uncertain both for credit and insurance programs. Default rates and claim rates can turn out to be significantly different than expected. Credit programs also face prepayment and interest rate risks. These risks must be carefully managed to ensure the program cost stays within a reasonable range.

Credit and insurance programs show strengths in basic financial and accounting practices, such as spending funds for intended purposes and controlling routine costs. However, some weaknesses are found in areas that are more critical for effective risk management, such as collecting timely information and using sophisticated financial tools.

Program Results. It is generally more difficult to measure the outcomes of Federal programs pursuing various social goals than those of private entities seeking profits. Unlike profits, social outcomes are difficult to quantify and often interrelated. Credit and insurance programs face an additional difficulty of estimating the program cost accurately. Since the outcome must be weighed against the cost, an underestimation or an overestimation of the cost would make the program appear unduly effective or ineffective. Thus, results for credit and insurance programs need to be interpreted in conjunction with the accuracy of cost estimation.

Program results, the most important category of performance, are generally weak for credit and insurance programs despite a higher average score than that of other programs. Many credit and insurance programs have difficulty in achieving performance goals and lack objective evidences of program effectiveness. These problems may partly result from the difficulty of measuring net outcomes. With reliable outcome measures, it should be easier to set achievable goals and demonstrate effectiveness.

III. STRUCTURE OF FINANCIAL REGULATION

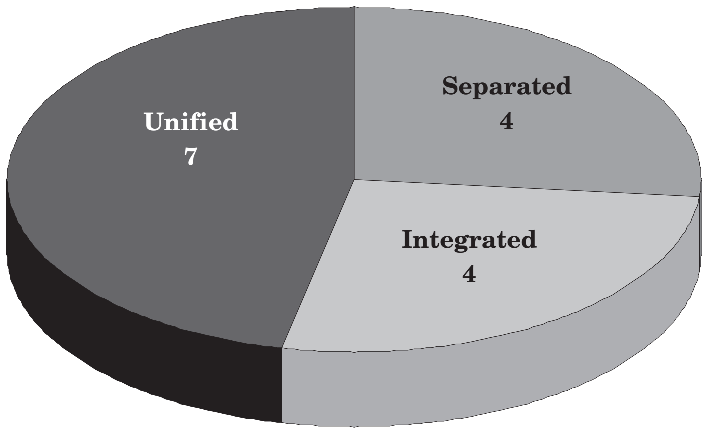
Several groups including government, industry, and academic institutions have expressed concerns about the competitiveness of U.S. capital markets in the global financial system, and that financial regulations and the regulatory structure in the United States have become overly burdensome and complex. Recommendations have been made to streamline the U.S. regulatory structure, while acknowledging that a strong regulatory regime is critical to maintaining market confidence and the U.S. financial markets' preeminence. The analysis below reviews the regulatory systems used in foreign countries, in comparison to the system currently in place in the United States.

U.S. Financial Services Oversight

Financial regulators are responsible for supervising financial institutions and financial transactions. Their domain encompasses banks and other depository institutions, insurance companies, securities firms, pension funds, finance companies, and other entities. Historically, regulators specialized in one of three financial service categories: banking, insurance, or securities.

The United States maintains a functionally separated regulatory system, with oversight responsibility divided among: five Federal banking regulators; two Federal securities/futures regulators; State-level insurance and other regulators; and self-regulatory organizations (non-governmental). The table below illustrates the multiple regulators of each type of financial services provider. The table shows that some providers can have up to five different levels of supervision in the United States.

Chart 7-1. Financial Services Regulatory Systems
Top 15 Non-U.S. Financial Centers



New Trends in Regulation

Outside the United States, countries have made recent changes to move toward a single, consolidated financial regulator having regulatory authority across all areas of financial services. These countries include the United Kingdom, Japan, Germany, and South Korea. Other countries have consolidated supervision of two or more financial sectors such as banking and insurance under one regulator, including Australia, Canada, and the Netherlands. Finally, countries that separate regulation of banking, insurance, and securities markets, including Hong Kong, France, and Italy, typically have only one regulator for each of those sectors. The United States has a separated system of regulation, with multiple regulators for each financial sector.

In an effort to provide more efficient and effective oversight of evolving markets, countries that have historically used a three- or multiple-pronged regulatory system are moving to consolidate regulation into one or two entities having the statutory power to supervise at least two of the three main types of financial intermediaries. This regulator is known as an "integrated" regulator; the regulatory system may be referred to as an integrated system.

The main drivers of this consolidation include:

- The need to better supervise the growing complexity and importance of financial conglomerates and the blurring distinctions among banking, securities, and insurance products, as well as the associated systematic risk;
- The desire to maximize economies of scale and scope in regulatory efforts; and
- The need to address poor communication between and lack of cooperation among existing regulatory agencies.

Examples of integrated systems are found in Australia, Canada, the Netherlands, and Switzerland. The systems in Australia and the Netherlands provide examples of the "Twin Peaks" model, which separates prudential from market-conduct regulation. In this model, the prudential regulator oversees systemic risk and the solvency of major financial institutions.[1] For example, a prudential regulator would ensure that deposit-taking institutions are able to meet their financial obligations by regulating and overseeing bank reserve ratios and inter-bank lending rates. The market-conduct regulator oversees institutional conduct with respect to markets and shareholders. A market-conduct regulator would ensure the accuracy of financial filings and investigate market manipulation, insider trading, and customer fraud.

[1] In the case of the Netherlands, the central bank has this responsibility.

REGULATORS OF FINANCIAL INSTITUTIONS

	Charter and License	Safety/Soundness Examination	Consumer Protection	Market Oversight
National Banks	OCC	OCC	FRB and OCC	SEC and CFTC
State Member Banks	States	FRB and States	FRB and States	SEC and CFTC
Insured Federal Savings Associations	OTS	OTS	FRB and OTS	SEC and CFTC
Insured State Savings Associations	States	OTS and States	FRB, OTS and States	SEC and CFTC
FDIC-insured State Nonmember Banks	States	FDIC and States	FRB, FDIC and States	SEC and CFTC
Federal Credit Unions	NCUA	NCUA	FRB and NCUA	SEC and CFTC
State Credit Unions	States	NCUA and States	FRB, FTC and States	N/A
Bank Holding Companies	FRB	FRB	FRB and FTC	SEC, CFTC and FRB
Thrift Holding Companies	OTS	OTS	OTS and FTC	SEC, CFTC and OTS
Consolidated Investment Banks	SEC	SEC	SEC	SEC, CFTC, SROs
Broker-Dealers	SEC	SEC	SEC, FTC and States	SEC and SROs
Futures Commission Merchants	CFTC and SROs	CFTC	CFTC and DOJ	CFTC and SROs
Hedge Funds	None	None	DOJ and States	SEC, CFTC and FRB
Credit Rating Agencies	SEC	SEC	N/A	N/A
Treasury Securities Primary Dealers	FRB and Treasury	FRB	N/A	FRB and Treasury
Insurance Companies	States	States	States	SEC, CFTC and States
Mortgage Companies	States	States	FRB and States	SEC and CFTC
Mortgage Brokers	States	States	FRB and States	N/A

OCC—Office of the Comptroller of the Currency OTS—Office of Thrift Supervision
FRB—Federal Reserve Board and Regional Banks FDIC—Federal Deposit Insurance Corporation
NCUA—National Credit Union Administration States—State Financial Regulatory Commissions
FTC—Federal Trade Commission SEC—Securities and Exchange Commission
CFTC—Commodity Futures Trading Commission DOJ—U.S. Department of Justice
SROs—Self-Regulatory Organizations (e.g. Financial Industry Regulatory Authority, National Futures Association)

The most extreme form of an integrated system, the "unified" regulatory system, is also gaining in popularity. Of the top 15 international financial centers (non-U.S.), almost half are overseen by a single regulator of all banking, insurance, and securities firms, nation-wide.[2] These include centers in Denmark, Germany, Japan, Singapore, South Korea, Sweden, and the United Kingdom. In addition, Switzerland approved legislation on June 22, 2007 to create a unified financial services regulator from its current integrated system, taking effect in 2009.

Conclusion

The U.S. approach to financial regulation is an outlier in the global financial system. The few countries that do have a similar, functionally divided system have significantly fewer regulators. Three-quarters of countries with the largest financial centers have consolidated their regulatory systems, with almost half maintaining a unified regulator for all sectors of the financial services industry. The Administration is conducting an in-depth review of the Nation's regulatory system and looks forward to advancing the dialogue this year.

[2] In some cases, such as Germany, a single, unified regulator has the predominant regulatory and supervisory authority over all sectors, and shares some supervisory authority with state-level regulators and the central bank. The role of the central bank varies among countries surveyed; in Singapore, for example, regulatory and supervisory responsibilities pertaining to all sectors have been merged into the central bank.

IV. CREDIT IN FOUR SECTORS

Housing Credit Programs and GSEs

Through housing credit programs, the Federal Government promotes homeownership and housing among various target groups, including low-income people, minorities, veterans, and rural residents. A primary function of the housing GSEs is to increase liquidity in the mortgage market.

Federal Housing Administration

In June 2002, the President issued America's Homeownership Challenge to increase the number of first-time minority homeowners by 5.5 million through 2010. During the five years since the goal was announced, nearly 3.2 million minority families have become first-time homeowners. Through 2007, the Department of Housing and Urban Development's (HUD's) Federal Housing Administration (FHA) helped more than 664,000 of these first-time minority homebuyers through its loan insurance programs. FHA mortgage insurance guarantees mortgage loans that provide access to homeownership for people who lack the traditional financial resources or credit history to qualify for a home mortgage in the conventional marketplace. In 2007, FHA insured purchase and refinance mortgages for more than 532,000 households. Among purchase mortgages, over 79 percent were for first-time homebuyers and 30 percent were for minority buyers. FHA also insured over 107,000 home equity conversion mortgages for elderly homeowners.

While FHA has been a primary facilitator of mortgage credit for first-time and minority buyers since the 1930s, its loan volume fell precipitously from 2002 through 2006. This is due in part to lower interest rates that made uninsured mortgages affordable for more families. Moreover, private lenders—aided by automated underwriting tools that allow them to measure risks more accurately—expanded lending to people who previously would have had no option but FHA, those with too few resources to pay for large downpayments, and/or who had credit histories that the private sector considered too risky. The development of new products and underwriting approaches has allowed private lenders to offer loans to more homebuyers. While this is a positive development when the private sector properly assesses risks and offers fair terms, some borrowers have ended up paying too much, receiving unfair terms, or taking on excessive debts.

As private lenders expanded their underwriting to cover more borrowers, FHA's business changed. First, the percentage of FHA-insured mortgages with initial loan-to-value (LTV) ratios of 95 percent or higher increased substantially, from 62.7 percent in 1995 to 79 percent in 2007. Second, the percentage of FHA loans with downpayment assistance from seller-financed nonprofit organizations grew rapidly, from 0.3 percent in 1998 to nearly 23 percent in 2007. Recent studies show that these loans are considerably more risky than those made to borrowers who receive downpayment assistance from other sources.

The FHA single-family mortgage program was assessed in 2005 using the PART. The assessment found that the program was meeting its statutory objective to serve underserved borrowers while maintaining an adequate capital reserve. However, the program lacked quantifiable annual and long-term performance goals that would measure FHA's ability to achieve its statutory mission. In addition, both the PART and subsequent reports by the Government Accountability Office and the Inspector General noted that the program's credit model does not accurately predict losses to the FHA insurance funds and that, despite FHA efforts to deter fraud in the program, HUD has not demonstrated that those steps have reduced such fraud. Due to weak housing market conditions today, FHA will record an upward re-estimate in the cost of its Mutual Mortgage Insurance Fund programs of $4.6 billion in 2008. Cumulatively, FHA has recorded net upward re-estimates of $19.7 billion since 1992.

In response to PART findings, FHA measured its 2007 performance against new goals, such as the percentage of FHA Single Family loans for first-time and minority homeowners, and exceeded its goals. FHA also improved the accuracy of its annual actuarial review claim and prepayment estimates. In 2008, it will continue to develop performance goals for fraud detection and prevention.

Response to Mortgage Market Challenges

FHA plays a valuable role in providing home financing options that augment those available in the conventional market. As discussed in the section on deposit insurance, conventional credit standards have tightened in recent months. Private mortgage insurers have raised underwriting standards, reducing the availability of financing options. In addition, there are a large number of borrowers who hold adjustable rate mortgages and face the risk of foreclosure due to large increases in mortgage payments after an interest-rate reset. An estimated 1.8 million subprime mortgages for owner-occupied homes are scheduled to reset in 2008 and 2009.

FHA is addressing both of these challenges. The FHA guarantee encourages lending to borrowers who may face increased difficulty in obtaining conventional financing. For borrowers who face difficulty making their mortgages payments, re-financing under an FHA-insured loan can offer a path that keeps them in their homes and avoids costly foreclosures. To broaden the use of this re-financing, the Administration announced the FHASecure program in August 2007. This program broadens the population eligible to use FHA. Beyond borrowers who are current, it also allows credit-worthy borrowers who have fallen behind on their mortgages due to interest rate resets to refinance into FHA. Since the announcement of FHASecure and as of January 2008, approximately 44,000 borrowers have successfully refinanced their conventional mortgages into FHA. While these actions help the mortgage market in the short-term, FHA needs permanent changes to allow guarantees on a wider variety of financing options and the flexibility to respond to future changes in the mortgage and housing markets.

Proposals for Program Reform

In order to enable FHA to fulfill its mission in today's changing marketplace, the Administration has proposed legislation that will give FHA the ability to respond to current challenges to homeownership among its traditional target borrowers: low and moderate-income first-time homebuyers. FHA has already taken steps, within its current authority, to streamline its documentation requirements and remove impediments to its use by lenders and buyers. However, additional reforms will enable it to expand homeownership opportunities to its target borrowers on an actuarially sound basis.

To remove two large barriers to homeownership—having limited savings for a downpayment or impaired credit—the Administration again proposes new FHA options. These options will replace the current flat premium-rate structure with one that varies with the risk of default, as indicated by the borrower's downpayment percentage and credit history. This will create more opportunities for potential homeowners who may face limited mortgage options. For example, first-time buyers with a strong credit record but little savings could finance a higher percent of the purchase than FHA currently allows. Alternatively, a borrower with a poor credit history but who has accumulated savings for a larger downpayment could qualify for more favorable terms with FHA than are available in the conventional market.

Such a flexible premium structure is a way to more fairly price the FHA guarantee to individual borrowers. It creates incentives (lower premium payments) for borrowers to take steps to improve their credit or save more for a downpayment. At the same time it eliminates the current incentive for higher-risk borrowers to use FHA because they are undercharged relative to the risk they pose. FHA proposes to base its mortgage insurance premiums upon a borrower's consumer credit score from the three major credit repositories (using the Fair-Isaac and Company (FICO) formula), and on the amount of downpayment. Mortgage insurance premiums will be based on FHA's historical experience with similar borrowers. This change will decrease premiums for many of FHA's traditional borrowers, thereby increasing their access to homeownership.

This price structure has many advantages. First, FHA will reflect a loan's risk via the mortgage insurance premium, not through a higher interest rate as done in the subprime market. With mortgage insurance through FHA, borrowers will pay a market rate of interest, and, as a result, will incur lower monthly payments and lower total costs than if they paid a higher mortgage interest rate throughout the life of the loan. Second, by using this pricing structure, FHA will promote price transparency. Each borrower will know why they are paying the premium that they are being charged and will know how to lower their borrowing costs—i.e., by raising their FICO score or their downpayment. Third, risk-based pricing will allow FHA to review the performance of its programs annually in conjunction with the preparation of its credit subsidy estimates and adjust its premiums as necessary to assure the financial soundness of the Mutual Mortgage Insurance Fund.

The Administration also proposes to increase the FHA single-family loan limit in high-cost areas to the conforming mortgage limit (from $362,790 to $417,000). This will enable FHA to offer its insurance in some areas that experienced rapid house price appreciation between 2001 and 2006, and where FHA is no longer a viable option because of overly-restrictive loan limits. There are areas of the country, including many major cities in California, where FHA used to provide significant support to first-time and minority homebuyers, but where it can do very little to help them now. This proposed loan-limit increase will also allow FHA to offer insurance to a more geographically diverse portfolio.

A reformed FHA will adhere to sound management practices that include a new framework of standards and incentives tied to principles of good credit program management. Further, the proposed reforms will better enable FHA to better meet its objective of serving first-time and low-income home buyers—about 280,000 first-time homebuyers in 2009 including about 80,000 minority families—by managing its risks more effectively.

VA Housing Program

The Department of Veterans Affairs (VA) assists veterans, members of the Selected Reserve, and active duty personnel to purchase homes as recognition of their service to the Nation. The program substitutes the Federal guarantee for the borrower's down payment. In 2007, VA provided $24.2 billion in guarantees to assist 129,261 borrowers.

Since the main purpose of this program is to help veterans, lending terms are more favorable than loans without a VA guarantee. In particular, VA guarantees zero downpayment loans. VA provided 84,858 zero downpayment loans in 2007.

To help veterans retain their homes and avoid the expense and damage to their credit resulting from foreclosure, VA intervenes aggressively to reduce the likelihood of foreclosures when loans are referred to VA after missing three payments. VA's successful actions resulted in 57 percent of such delinquent loans avoiding foreclosure in 2007.

Rural Housing Service

The U.S. Department of Agriculture's Rural Housing Service (RHS) offers direct and guaranteed loans and grants to help very low- to moderate-income rural residents buy and maintain adequate, affordable housing. The single-family guaranteed loan program guarantees up to 90 percent of a private loan for low to moderate-income (115 percent of median income or less) rural residents. In 2007, nearly $4.8 billion in assistance was provided by RHS for homeownership loans and loan guarantees; $3.6 billion in guarantees went to more than 35,000 households, of which 32 percent went to very low and low-income families (with income 80 percent or less than median area income).

Historically, RHS has offered both direct and guaranteed homeownership loans. However, the direction of Rural Development's single-family housing mortgage assistance over the last two decades has been towards guaranteed loans. The single family housing guaranteed loan program was newly authorized in 1990 at $100 million and has grown into a $3 billion plus guaranteed loan program annually, equaling that of the Veterans Affairs (VA) guaranteed housing loan program. Meanwhile the single-family direct loan program has been stagnant at approximately a $1-billion loan level. Consequently, the Administration is proposing that Rural Development focus solely on guaranteed loans for single-family housing.

This policy was initially proposed in 2008 because it was consistent with the other Federal homeownership programs. In fact, there are no Federal single family direct loan home ownership programs for urban areas. While some rural areas remain isolated from broad credit availability, these areas are shrinking as broadband internet access and correspondent lending grow. Therefore, relying on the private banking industry to provide this service, with a guarantee from the Federal government, is a more efficient way to deliver that assistance.

The 2009 Budget also re-proposes an increase in the single family housing guarantee fee on new purchase loans to 3 percent from 2 percent. This change allows the loans to be less costly for the Government without a significant additional burden to the borrowers, given that they can finance the fee as part of the loan. The guarantee fee for refinance loans remains 0.5 percent. The fee proposal on purchase loans will allow funding in 2009 to be $4.8 billion, an increase of over $600 million above 2008.

The budget also supports $300 million in RHS guaranteed loans for multifamily housing construction loans for 2009. This level of support can be achieved at a more efficient cost through the removal of the subsidized interest authorization and the fee component of the program as part of the 2009 request. No funds are requested for the direct rural rental housing program or the farm labor housing program because fixing the current portfolio is the first priority.

Government-Sponsored Enterprises in the Mortgage Market

Homeownership has long been recognized as an important part of the American economy and part of the American dream. However, it has not always been within reach for the average American. During the Great Depression, housing markets were in turmoil. A typical mortgage required a downpayment of around 50 percent and a balloon payment of principal within a few years. Limitations in financial and communication technology and restrictions on financial institutions made it difficult for surplus funds in one part of the country to be shifted to other parts of the country to finance residential housing. Starting in 1932, the Congress responded by creating a series of entities and programs that together promoted the development of long-term, amortizing mortgages and facilitated the movement of capital to support housing finance.

A key element of this response was the creation of the Federal Housing Administration in 1934. Another element was the establishment of several entities designed to develop secondary mortgage markets and to facilitate the movement of capital into housing finance. These entities were chartered by the Congress with public missions and endowed with certain benefits that give them competitive advantages when compared with fully private companies.

The Federal Home Loan Bank System, created in 1932, is comprised of twelve individual banks with shared liabilities. Together they lend money to financial institutions—mainly banks and thrifts—that are involved in mortgage financing to varying degrees, and they also finance some mortgages on their own balance sheets. The Federal National Mortgage Association, or Fannie Mae, created in 1938, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, created in 1970, were established to support the stability and liquidity of a secondary market for residential mortgage loans. Fannie Mae's and Freddie Mac's public missions were later broadened to promote affordable housing. Together these three GSEs currently are involved, in one form or another, with nearly one half of the $11-plus trillion residential mortgages outstanding in the U.S. today. Their share of outstanding residential mortgage debt peaked at 54 percent in 2003, after which management and internal control problems started to surface at Fannie Mae and Freddie Mac and originations of subprime and non-traditional mortgages led to a surge of private-label MBS.

As with other financial institutions, the Congress has also established regulatory regimes to ensure the safety and soundness of the housing GSEs. The Office of Federal Housing Enterprise Oversight (OFHEO), established in 1992 as an independent agency within the Department of Housing and Urban Development, oversees the safety and soundness of Fannie Mae and Freddie Mac while HUD is responsible for mission oversight. The Federal Housing Finance Board (FHFB), established in 1989, oversees the Federal Home Loan Bank System. Numerous government and other reports have pointed to various shortcomings with the current regulatory structure and authorities for the housing GSEs. The Administration is proposing to strengthen this structure and regulatory authorities and combine OFHEO, HUD's regulatory responsibilities for mission oversight, and FHFB to create a new regulator to oversee all these GSEs.

Mission

The mission of the housing GSEs is to support certain aspects of the U.S. mortgage market. Fannie Mae and Freddie Mac's mission is to promote affordable housing, and provide liquidity and stability to the secondary mortgage market. Currently, they engage in two major lines of business.

1. Credit Guarantee Business—Fannie Mae and Freddie Mac guarantee the timely payment of principal and interest on mortgage-backed securities (MBS). They create MBS by either buying and pooling whole mortgages or by entering into swap arrangements with mortgage originators. Over time these MBS held by the public have averaged about one-quarter of the U.S. mortgage market, and they totaled $3.5 trillion as of November 30, 2007.

2. Mortgage Investment Business—Fannie Mae and Freddie Mac manage retained mortgage portfolios composed of their own MBS, MBS issued by others, and individual, whole mortgages. As of November 30, 2007, these retained mortgages totaled $1.4 trillion. Given Fannie Mae's and Freddie Mac's serious accounting, internal control, risk management, and systems problems, the growth of these portfolios has been temporarily constrained through agreements with OFHEO.

The mission of the Federal Home Loan Bank System is broadly defined as promoting housing finance, and the System also has specific requirements to support affordable housing. The Federal Home Loan Banks have not grown mortgage asset portfolios as large as Fannie Mae or Freddie Mac. Their principal business remains secured lending to regulated depository institutions and insurance companies engaged in residential mortgage finance to varying degrees.

Risks That GSEs Face and Cause

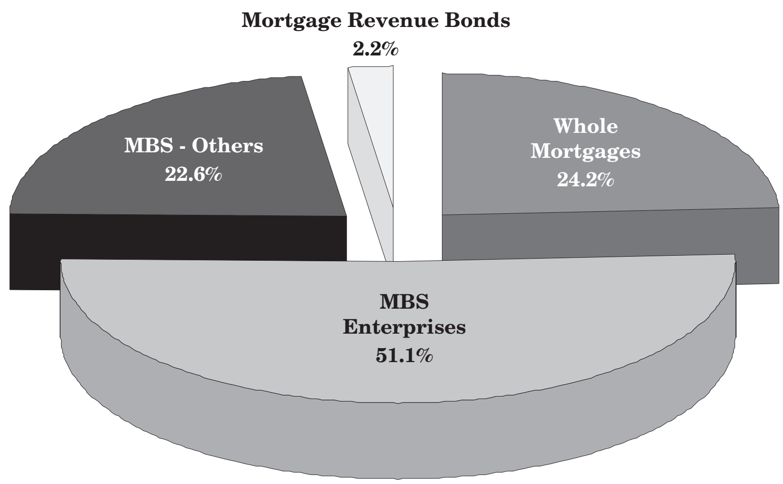
Like other financial institutions, the GSEs face a full range of risks, including market risk, credit risk, and operational risk. In recent years several of the Federal Home Loan Banks and Fannie Mae have faced serious market risks due to inadequate hedging. Fannie Mae and Freddie Mac have faced serious operational risk. As a result of earnings manipulation, poor accounting systems, lack of proper controls, lack of proper risk management, and misapplication of accounting principles, earnings at Fannie Mae were misstated by $6.3 billion through June of 2004, and at Freddie Mac by $5.0 billion through December of 2002. The housing market downturn in the last year has increased significantly the credit risk faced by Fannie Mae and Freddie Mac.

The GSEs also pose risks to the financial system and overall economy. Systemic risk is the risk that unanticipated problems at a financial institution or group of institutions could lead to problems more widely in the financial system or economy—the risk that a small problem could multiply to a point where it could jeopardize the country's economic well-being. The particular systemic risk posed by the GSEs is the risk that a miscalculation, failure of controls, or other unexpected event at one company could unsettle not only the mortgage and mortgage finance markets but also other vital parts of the financial system and economy. To understand this risk, one must understand the interdependencies among the GSEs and other market participants in the financial system and the lack of market discipline imposed on the GSEs because investors perceive that the GSEs are implicitly backed by the U.S. Government.

The GSEs are among the largest borrowers in the world. As of September 2007 their combined debt and guaranteed MBS totaled $6.0 trillion, higher than the total publicly held debt of the United States. The investors in GSE debt include thousands of banks, institutional investors such as insurance companies, pension funds, and foreign governments, and millions of individuals through mutual funds and 401k investments. Based on the prices paid by these investors, they act as if the Federal Government guarantees GSE debt. In fact, there is no such guarantee or Federal backing of GSE debt.

Because investors act as if there is an "implicit guarantee" by the Federal Government to back GSE debt, investors on average lend their money to the GSEs at interest rates roughly 30 to 40 basis points less ($300–$400 less per year for every $100,000 borrowed) than to other highly rated privately held companies. In addition, investors do not demand the same financial disclosures as for other privately owned companies. Fannie Mae filed quarterly financial reports for each of the first three quarters of the year in November 2007, the first quarterly financial statements in more than three years, and has not filed a timely annual report (10-K) with the Securities and Exchange Commission (SEC) for nearly four years. Freddie Mac still has never registered with the SEC as it agreed to in 2002. It has issued quarterly reports during 2007, but they were all tardy. Yet there has been no significant impact on the pricing of GSE debt securities. In past years, the lack of market discipline facilitated the growth of the GSE asset portfolios, thereby increasing systemic risk.

Chart 7-2. Fannie Mae and Freddie Mac Combined Retained Mortgage Portfolios Year-End 2006



Retained Asset Portfolios Achieve Little for the GSEs' Housing Mission

Fannie Mae and Freddie Mac have used their funding cost advantage to amass large retained asset portfolios. Together these GSEs have $1.5 trillion in debt outstanding, almost entirely for the purpose of funding these portfolios. From 1990 through 2006, the GSEs' competitive funding advantage enabled them to increase their portfolios of mortgage assets more than ten-fold, which far exceeds the growth of the overall mortgage market. Due to the size of and risks associated with the portfolios, the Administration is proposing that the new regulatory structure empower the regulator to address and mitigate these risks.

As chart 7–2 shows, 51 percent of Fannie Mae and Freddie Mac's combined retained mortgage portfolios at the end of 2006 was comprised of holdings of their own guaranteed MBS, which could easily be sold.

The function of these portfolio holdings is largely to increase profits, not facilitate affordable housing. In 1992, the Congress broadened Fannie Mae and Freddie Mac's mission to include providing liquidity for mortgages that served low-and moderate-income borrowers and those living in underserved areas. To measure this performance, the Congress mandated that HUD establish three affordable housing goal targets that Fannie Mae and Freddie Mac must meet each year. HUD has also implemented home purchase subgoals to encourage homeownership opportunities for first-time homeowners and minority homeowners. Given that Fannie Mae and Freddie Mac have a mission to help more families achieve homeownership as well as to expand rental opportunities, their retained portfolios should be largely tied to that mission. However, currently only about 30 percent of Fannie Mae and Freddie Mac's retained portfolio holdings would be eligible to qualify for any of the affordable housing goals. About half of the MBS issued by others and whole loans held by the GSEs qualify toward their affordable housing goals but none of their holdings of their own MBS contribute toward meeting the goals because loans backing the MBS are already counted. Their performance under the housing goals over time indicate that Fannie Mae and Freddie Mac should be doing more to help mission-targeted families achieve homeownership or acquire affordable rental housing.

Debt Issuance Subject to Treasury Approval

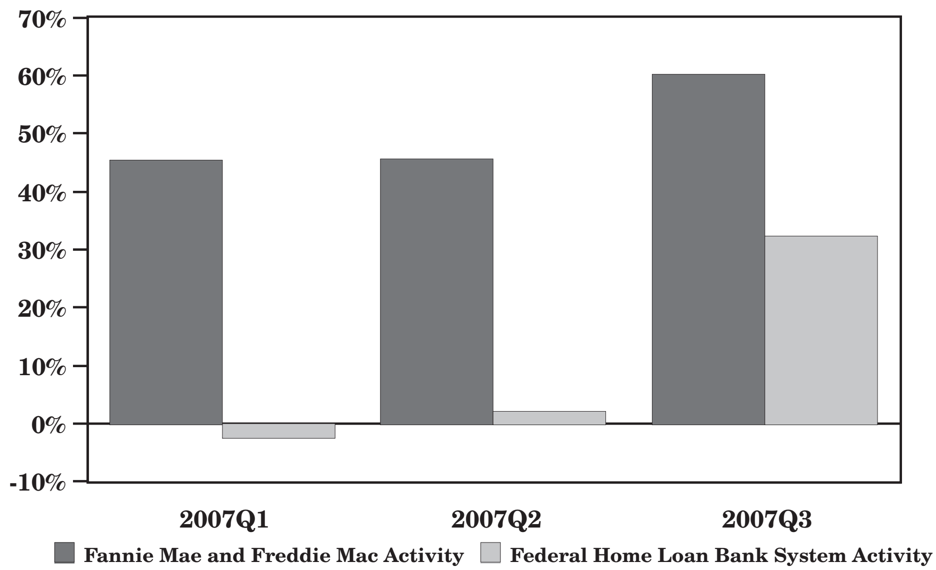
Fannie Mae and Freddie Mac fund their portfolios by issuing debt, and the U.S. Department of the Treasury has the statutory responsibility to review and approve these GSEs' debt-issuances. The Treasury Department also has debt approval over the Federal Home Loan Banks. Treasury is developing a more formalized approach to their debt approval authority. As part of that approach, Treasury is developing new debt approval procedures to enhance the clarity, transparency, standardization, and documentation of the debt approval process for Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

Recent Mortgage Market Conditions Highlight Needed Reforms

In early August 2007, there was a precipitous drop in the liquidity of subprime, nontraditional, and prime jumbo mortgages. Faced with sharp increases in the delinquency and default rates of subprime and non-traditional loans in 2006 and 2007, as well as flat or declining home prices in much of the country, secondary market investors reassessed the risk of non-GSE MBS backed by those loans, which had previously been mispriced. The illiquidity of non-GSE MBS reduced the industry's capacity to securitize newly-originated subprime and jumbo loans, although some lenders continued to originate jumbo mortgages for portfolio. Freddie Mac and, to a lesser degree, Fannie Mae also incurred losses on investments in non-GSE MBS.

The three housing GSEs have continued to perform their missions during the recent market disruption. In the third quarter of 2007, Fannie Mae and Freddie Mac supported the liquidity of the secondary market by engaging in $343 billion of new business. The Federal Home Loan Banks increased their secured lending to mortgage lenders by $184 billion in that quarter. As Chart 7–3, shows, the combined activity of Fannie Mae and Freddie Mac as a share of single-family mortgage originations rose to 60 percent in the third quarter, whereas the Federal Home Loan Bank System's share increased to 32 percent. Those increases in market share highlight the need for a strong regulator.

Chart 7-3. Mortgage Purchases and Securitization by Fannie Mae and Freddie Mac and Change in Federal Home Loan Bank Advances as a Share of Single-Family Mortgage Originations, First Three Quarters of 2007



The risks of the GSEs' large portfolios are exacerbated because they are not required to hold cushions of capital against potential losses comparable to the capital requirements for other large financial institutions. Where commercial banks that are part of a financial holding company must hold a 5 percent capital-to-total assets cushion, Fannie Mae and Freddie Mac's requirement (before the 30% surcharge imposed by OFHEO for operational weakness) is half that, whereas the Federal Home Loan Banks' is 4 percent. The risk-based capital requirements for the GSEs also differ dramatically from those applicable to commercial banks. This highlights an important shortcoming of the statutory framework governing Federal oversight of the GSEs. The minimum capital and risk-based capital rules for the GSEs were written into law in 1992. Much has changed since then with regard to financial risk analysis, risk modeling, and capital requirements for comparable financial institutions. The reforms proposed by the Administration would repeal the statutory risk-based capital stress test, and would provide the new GSE regulator with the authority and flexibility to establish through regulation new risk-based capital requirements for the GSEs to help ensure that they operate with sufficient capital and reserves to support the risks that arise in the operations and management of each enterprise. A world-class regulator needs the flexibility and authority to change both the risk-based and minimum capital requirements without undue restriction in response to changing conditions.

The substantial increase in mortgage delinquencies and foreclosures in recent months serves as a reminder that mortgage lending involves credit risk. Fannie Mae and Freddie Mac are exposed to significant default risk on the mortgages they hold in portfolio or that back the MBS they guarantee. The GSEs' asset portfolios pose other substantial risks as well. Mortgage portfolios carry considerable interest-rate and pre-payment risk. This risk can be mitigated—for example, through purchase of interest-rate hedges—but the GSEs protect themselves against only some of the interest rate risk of their portfolios. Moreover, hedges are imperfect because predicting interest-rate movements and mortgage refinancing activity is difficult. As GSE asset portfolios have grown in size, the GSEs' participation in the market for hedging instruments has become dominant enough to cause interest rate spikes in the event that a GSE needs to make large and sudden adjustments to its hedging position. Further, Freddie Mac and, to a lesser extent, Fannie Mae hold large amounts of non-GSE MBS, which pose significant risks. Many of these securities are backed by subprime loans, and market values have declined as concerns about those loans have risen. Increased defaults and concerns about future defaults have led to significant losses at both of those GSEs in the last half of 2007, and led to new preferred stock issues raising $16 billion to shore up capital.

New Activities and Technological Development Require Oversight

Over the last decade, Fannie Mae and Freddie Mac have begun engaging in a wide range of new activities that were not anticipated when their charters were written. To address these changes, HUD developed a new activity review initiative under its general regulatory authority. HUD has reviewed a number of business initiatives at Fannie Mae and Freddie Mac, including international activities; partnership offices; senior housing; skilled nursing facilities; employer assisted housing plans; third party real-estate-owned programs; Commercial Mortgage-Backed Securities (CMBS); Asset-Backed Securities (ABS); multifamily variable-rate bond certificates; whole loan REMICs; and patenting programs. HUD imposed limitations on some activities and concluded that other activities were not authorized. For example, HUD's review of the GSEs' Commercial MBS programs resulted in OFHEO seeking Freddie Mac's divestiture of certain CMBS holdings, and HUD ordered Fannie Mae to end its third party Real-Estate-Owned program based on its review.

HUD completed a Financial Activities Review in late 2007. The review provided a baseline of information on Fannie Mae's and Freddie Mac's business and program activities and examined specific transactions to determine if these are consistent with the GSEs' charter authorities. HUD expects to issue its review results to the GSEs during the second quarter of fiscal year 2008.

Because of their enormous presence in the secondary market, Fannie Mae and Freddie Mac are able to exert significant influence in the *primary* mortgage market. First, their unparalleled size in the residential mortgage market gives the GSEs a unique level of access to market information. The applicability of that information to the management of mortgage risk gives them a competitive edge in the development of new technology that can change relationships between primary market participants as well as the distribution of economic returns between the primary and secondary markets. Second, their funding advantage enables the GSEs to borrow at reduced rates in order to make investments in new areas at below-market prices, thus discouraging competition while gaining experience in those areas.

Through the development and delivery of new technology to the industry and by leveraging their funding advantage, there is potential for the GSEs to expand their business beyond the limitations of their Charter Acts, which prohibits both Fannie Mae and Freddie Mac from originating mortgages. Loan origination is the central function of the primary mortgage market, and the GSEs' charter acts clearly restrict them to the secondary mortgage market. However, technological advancements have blurred the line that defines where the primary market ends and the secondary market begins. A new level of clarity is required to establish the permissible activities under the Enterprises' charter acts, including the development of intellectual property.

New Regulatory Authority

The Administration continues to support broad reform of the GSE supervisory system. In particular, the Administration supports establishing a new regulator for all three of the housing GSEs that would combine safety and soundness authority with oversight of their respective housing missions. The new regulator must have enhanced powers comparable to those of other world-class financial regulators, including, among others, the ability to put a GSE into receivership should it fail, authority to establish and adjust appropriate capital standards, and new product approval authority. A new regulator must also have clear authority to address the size of and mitigate the risks posed by the GSEs' retained portfolios. Finally, a new regulatory structure must ensure that the GSEs are adhering to their affordable housing mission.

Education Credit Programs

The Federal Government guarantees loans through intermediary agencies and makes direct loans to students to encourage postsecondary education enrollment. The Student Loan Marketing Association (Sallie Mae), created in 1972 as a GSE to develop the secondary market for guaranteed student loans, was privatized in 2004.

The Department of Education helps finance student loans through two major programs: the Federal Family Education Loan (FFEL) program and the William D. Ford Federal Direct Student Loan (Direct Loan) program. Eligible institutions of higher education may participate in one or both programs. Loans are available to students regardless of income. However, borrowers with low family incomes are eligible for loans with additional interest subsidies. For low-income borrowers, the Federal Government subsidizes loan interest costs while borrowers are in school, during a six-month grace period after graduation, and during certain deferment periods.

The FFEL program provides loans through an administrative structure involving over 3,600 lenders, 35 State and private guaranty agencies, and over 5,000 participating schools. In the FFEL program, banks and other eligible lenders loan private capital to students and parents, guaranty agencies insure the loans, and the Federal Government reinsures the loans against borrower default. Lenders bear five percent of the default risk on all new loans, and the Federal Government is responsible for the remainder. The Department also makes administrative payments to guaranty agencies and, at certain times, pays interest subsidies on behalf of borrowers to lenders.

The William D. Ford Direct Student Loan program was authorized by the Student Loan Reform Act of 1993. Under the Direct Loan program, the Federal Government provides loan capital directly to nearly 1,100 schools, which then disburse loan funds to students. The program offers a variety of flexible repayment plans including income-contingent repayment, under which annual repayment amounts vary based on the income of the borrower and payments can be made over 25 years with any residual balances forgiven.

In 2007, the President signed the College Cost Reduction and Access Act (CCRAA) into law. The CCRAA enacted broad programmatic reforms that will save $22 billion through 2012 by reducing lender and guaranty agency subsidies that had been higher than necessary to ensure that loans are available to students in this profitable and competitive market. Stemming from proposals included in the President's 2008 Budget, the CCRAA reduced interest subsidies and default reinsurance paid to FFEL lenders; reduced fees paid to guaranty agencies; and required the Department of Education to conduct an auction pilot for the PLUS loan program, which primarily makes loans to parents to finance their child's education. As implementation of these complex provisions continues, the Administration will closely monitor the student loan marketplace to ensure it continues to be robust and efficient, and that students have access to loans from a variety of lenders. The savings from the CCRAA were used to offset the costs of providing several student and borrower benefits, including: (1) a historic increase in the Pell Grant program; (2) a reduction in student loan interest rates for subsidized loans from 6.8 percent to 3.4 percent over four years (reverting back to 6.8 percent thereafter), and (3) increased flexibility in how borrowers repay their loans.

Business and Rural Development Credit Programs and GSEs

The Federal Government guarantees small business loans to promote entrepreneurship. The Government also offers direct loans and loan guarantees to farmers who may have difficulty obtaining credit elsewhere and to rural communities that need to develop and maintain infrastructure. Two GSEs, the Farm Credit System and the Federal Agricultural Mortgage Corporation, increase liquidity in the agricultural lending market.

Small Business Administration

The Small Business Administration (SBA) helps entrepreneurs start, sustain, and grow small businesses. As a "gap lender" SBA works to supplement market lending and provide access to credit where private lenders are reluctant to do so without a Government guarantee. Additionally, SBA helps home and business-owners, as well as renters, cover the uninsured costs of recovery from disasters through its direct loan program.

The 2009 Budget requests $657 million, including administrative funds, for SBA to leverage more than $29 billion in financing for small businesses and disaster victims. The 7(a) General Business Loan program will support $17.5 billion in guaranteed loans while the 504 Certified Development Company program will support $7.5 billion in guaranteed loans for fixed-asset financing. SBA will supplement the capital of Small Business Investment Companies (SBICs) with $3 billion in long-term, guaranteed loans for venture capital investments in small businesses. At the end of 2007, the outstanding balance of business loans totaled $85 billion.

During the past few years, SBA has implemented several initiatives to streamline and improve operations by increasingly delegating responsibilities to lenders and centralizing operations while managing and mitigating risk. In 2003, SBA implemented a state-of-the-art Lender Loan Monitoring System (LLMS) to evaluate individual SBA lenders by tracking the expected risk of SBA guaranteed loans in their portfolios relative to expected performance of those loans.

In response to the challenges experienced in making and disbursing loans resulting from the 2005 Gulf Coast hurricanes, SBA has made a number of improvements, including implementing a case-manager system for processing loan applications and new metrics to track performance. By summer 2008, SBA expects to implement an Internet-based loan application system that will facilitate the collection of data from disaster victims and speed processing.

The Budget builds on these efforts by investing in core technology systems and human capital efforts. Increased funding is requested for the Loan Management and Accounting System (LMAS), a modern system to replace an aged mainframe system and ensure adequate stewardship over a loan portfolio that has grown 59 percent since 2001. Funds are also requested for a training initiative focused on core competencies and other important information technology investments.

The Budget also proposes to build upon the success of the zero-subsidy 7(a) program by making the Microloan program self-financing through modest increases in the interest rate paid by program intermediaries. The Administration is also proposing authorizing legislation to enable the secondary market guarantee (SMG) program to charge nominal fees on lenders seeking to pool loans; fees are expected to be less than or comparable to fees in other secondary market programs and will help stabilize the program from the need to make frequent administrative changes.

USDA Rural Infrastructure and Business Development Programs

USDA provides grants, loans, and loan guarantees to communities for constructing facilities such as health-care clinics, day-care centers, and water systems. Direct loans are available at lower interest rates for the poorest communities. These programs have very low default rates. The cost associated with them is due primarily to subsidized interest rates that are below the prevailing Treasury rates.

The program level for the Water and Wastewater (W&W) treatment facility loan and grant program in the 2009 President's Budget is $1.6 billion. These funds are available to communities of 10,000 or fewer residents. No change is proposed to the poverty rate for this program in 2009. The Community Facility Program is targeted to rural communities with fewer than 20,000 residents. It will have a program level of $512 million in 2009.

USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, cooperatives, nonprofits, and farmers in creating new community infrastructures (i.e. educational networks or healthcare coops), and to diversify the rural economy and employment opportunities. In 2009, USDA proposes to provide $730 million in loan guarantees and direct loans to entities that serve communities of 50,000 or less through the Business and Industry guaranteed loan program and Intermediary Relending program. These loans are structured to save/create jobs and stabilize fluctuating rural economies. A recently implemented performance assessment tool will be used to calculate their impact on income growth in local, state, and national economies.

The President's Farm Bill proposal includes $1.5 billion in support for Rural Development programs over 10 years. Of this, $0.5 billion will go to enhance rural infrastructures, alleviating program backlogs, and $0.1 billion to support rural critical access hospitals. The other $0.9 billion will promote renewable energy activities, providing support to businesses and farmers who would like to produce renewable energy and increase their energy efficiencies.

Electric and Telecommunications Loans

USDA's Rural Utilities Service (RUS) programs provide loans for rural electrification, telecommunications, distance learning, telemedicine, and broadband, and also provide grants for distance learning and telemedicine (DLT).

The Budget includes $4.1 billion in direct electric loans for distribution, transmission, and improvements to existing generation facilities, $690 million in direct telecommunications loans, $298 million in broadband loans, and $20 million in DLT grants.

Since generation has been deregulated and has become a more commercial operation, the Administration supports using the commercial market for construction of new generation facilities. While the Administration has established a loan rate methodology for new non-nuclear generation facilities, the Administration has not proposed a loan level or requested funding needed to subsidize such loans. A loan level will be considered once Congress enacts legislation to authorize a fee on such loans and allows RUS to implement existing authority for recertification of the rural status of areas served by its borrowers.

The Budget includes a proposal to replace the 100 percent guaranteed electric and telecommunications loans that are financed through the Federal Financing Bank (FFB) with loans made directly through the Treasury. The proposed new direct loan program would improve the operations of USDA's rural utility loans by simplifying the Government's processes while providing the same benefits and flexibilities for the borrowers.

Loans to Farmers

The Farm Service Agency (FSA) assists low-income family farmers in starting and maintaining viable farming operations. Emphasis is placed on aiding beginning and socially disadvantaged farmers. FSA offers operating loans and ownership loans, both of which may be either direct or guaranteed loans. Operating loans provide credit to farmers and ranchers for annual production expenses and purchases of livestock, machinery, and equipment. Farm ownership loans assist producers in acquiring and developing their farming or ranching operations. As a condition of eligibility for direct loans, borrowers must be unable to obtain private credit at reasonable rates and terms. As FSA is the "lender of last resort," default rates on FSA direct loans are generally higher than those on private-sector loans. FSA-guaranteed farm loans are made to more creditworthy borrowers who have access to private credit markets. Because the private loan originators must retain 10 percent of the risk, they exercise care in examining the repayment ability of borrowers. The Administration's recent farm bill proposal includes policies to improve credit assistance for farm borrowers, with particular emphasis to beginning and socially disadvantaged farmers. Specifically, the Administration proposes to double assistance targeted to beginning and socially disadvantaged farmers for the direct operating loan program and reduce the interest rate for downpayment assistance to beginning farmers. Finally, because the cost of production is high for many farmers desiring to enter into farming, the farm bill includes increased loan levels for direct loan programs.

In 2007, FSA provided loans and loan guarantees to approximately 27,000 family farmers totaling $3.1 billion. The number of loans provided by these programs has fluctuated over the past several years. The average size for farm ownership loans has been increasing. The majority of assistance provided in the operating loan program is to existing FSA farm borrowers. In the farm ownership program, new customers receive the bulk of the benefits furnished. The demand for FSA direct and guaranteed loans continues to be high due to low crop/livestock prices and some regional production problems. In 2009, FSA proposes to make $3.4 billion in direct and guaranteed loans through discretionary programs.

In 2005, to further improve program effectiveness, FSA conducted an in-depth review of its direct loan portfolio to assess program performance, including the effectiveness of targeted assistance and the ability of borrowers to graduate to private credit. The results of this review will assist FSA in improving the delivery of its services and the economic viability of farmers and ranchers. FSA is currently evaluating the feasibility of obtaining a similar independent review of the guaranteed loan program. In addition, FSA recently implemented a web-based system to track loan applications. The Direct Loan System (DLS) replaces the loan making components of other automated systems. A loan servicing DLS module is currently under development. FSA successfully completed a comprehensive review of all farm loan program regulations, handbooks, and information collections. This streamlining initiative was one of the most aggressive efforts to enhance both the direct and guaranteed programs in the program's 60-year history. This initiative will reduce the burden for both applicants and the Agency, resulting in an improvement in loan processing efficiencies.

The Farm Credit System and Farmer Mac

The Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation (FarmerMac) are Government-Sponsored Enterprises (GSEs) that enhance credit availability for the agricultural sector. The FCS provides production, equipment, and mortgage lending to farmers and ranchers, aquatic producers, their cooperatives, related businesses, and rural homeowners, while Farmer Mac provides a secondary market for agricultural real estate and rural housing mortgages.

The Farm Credit System

The financial condition of the System's banks and associations remains sound. The ratio of capital to assets decreased to 14.8 percent as of September 30, 2007 from 15.7 percent as of September 30, 2006, as asset growth outpaced capital growth. As of September 30, 2007, capital consisted of $2.5 billion in restricted capital held by the Farm Credit System Insurance Corporation (FCSIC) and $24.0 billion of unrestricted capital—a record level. Non-performing loans decreased, and earnings increased, resulting from growth in the loan portfolio and higher earnings on assets. Non-performing loans as a percentage of total loans outstanding fell to .43 percent as of September 30, 2007 compared to .50 percent a year earlier. Assets have grown at a 10.8 percent annual rate over the past five years, while the number of FCS institutions has decreased due to consolidation. As of September 30, 2007, the System consisted of five banks and 95 associations compared with seven banks and 104 associations in September 2002. As of September 30, 2007, 98 of the 100 FCS banks and associations had one of the top two examination ratings (1 or 2 in a 1–5 scale), while two FCS institutions had a 3 rating.

The FCSIC ensures the timely payment of principal and interest on FCS obligations on which the System banks are jointly and severally liable. FCSIC manages the Insurance Fund, which supplements the System's capital and the joint and several liability of the System banks. At September 30, 2007, the assets in Insurance Fund totaled $2.519 billion. Of that amount $40 million was allocated to the Allocated Insurance Reserve Accounts (AIRAs). At September 30, 2007, the Insurance Fund as a percentage of adjusted insured debt was 1.71 percent in the unallocated Insurance Fund and 1.74 percent including the AIRAs. This was below the statutory Secure Base amount of 2 percent. During 2007 growth in System debt has outpaced the capitalization of the Insurance Fund that occurs through investment earnings and premiums.

Over the 12-month period ending September 30, 2007, the System's loans outstanding grew by $19.2 billion, or 16.6 percent, while over the past five years they grew by $47.2 billion, or 53.6 percent. As required by law, borrowers are also stockholder owners of System banks and associations. As of September 30, 2007, the System had 472,925 stockholders. Loans to young, beginning, and small farmers and ranchers represented 11.7, 19.4, and 27.7 percent, respectively, of the total dollar volume of farm loans outstanding at the end of 2006. The percentage of loans to beginning farmers in 2006 remained the same as the percentage of loans in 2005, while percentages to young and small farmers were slightly lower. Young, beginning, and small farmers are not mutually exclusive groups and, thus, cannot be added across categories. Providing credit and related services to young, beginning, and small farmers and ranchers is a legislative mandate for the System.

The System, while continuing to record strong earnings and capital growth, remains exposed to a variety of risks associated with its portfolio concentration on agriculture and rural America. While this sector is currently healthy, it is subject to risk due to rapidly rising farm real estate prices, volatile commodity prices and input costs, uncertainty regarding changes in government farm policy and trade agreements, weather-related catastrophes, animal and plant diseases, and off-farm employment opportunities.

Farmer Mac

Farmer Mac was established in 1988 as a Federally chartered instrumentality and institution of the System to facilitate a secondary market for farm real estate and rural housing loans. The Farm Credit System Reform Act of 1996 expanded Farmer Mac's role from a guarantor of securities backed by loan pools to a direct purchaser of mortgages, enabling it to form pools to securitize. This change increased Farmer Mac's ability to provide liquidity to agricultural mortgage lenders.

Farmer Mac continues to meet core capital and regulatory risk-based capital requirements. Farmer Mac's total program activity (loans purchased and guaranteed, AgVantage bond assets, and real estate owned) as of September 30, 2007, totaled $8.4 billion. That volume represents an increase of 19 percent from program activity at September 30, 2006. Of total program activity, $2 billion were on-balance sheet loans and agricultural mortgage-backed securities, and $6.3 billion were off-balance sheet obligations. Total assets were $5.4 billion at the close of the third quarter, with non-program investments accounting for $3.3 billion of those assets. Farmer Mac's net loss for first three quarters of 2007 was $6.3 million, a significant change from the same period in 2006 during which net income was $22 million.

The currently reported year-to-date loss amount is primarily the result of fluctuations in the market value of financial derivatives and trading assets that are now recognized in the income statement and is not the result of negative developments in its operations or cash flows. This change was instituted in November 2006, when Farmer Mac opted to change its accounting methods to remove the impact of accounting for derivatives as hedges against interest rate movements. Farmer Mac has stated that it does not expect the accounting change to impact its ability to carry out its business plans or have any effect on its business model.

International Credit Programs

Seven Federal agencies—the Department of Agriculture (USDA), the Department of Defense, the Department of State, the Department of the Treasury, the Agency for International Development (USAID), the Export-Import Bank, and the Overseas Private Investment Corporation (OPIC)—provide direct loans, loan guarantees, and insurance to a variety of foreign private and sovereign borrowers. These programs are intended to level the playing field for U.S. exporters, deliver robust support for U.S. manufactured goods, stabilize international financial markets, and promote sustainable development.

Leveling the Playing Field

Federal export credit programs counter subsidies that foreign governments, largely in Europe and Japan, provide their exporters, usually through export credit agencies (ECAs). The U.S. Government has worked since the 1970's to constrain official credit support through a multilateral agreement in the Organization for Economic Cooperation and Development (OECD). This agreement has significantly constrained direct interest rate subsidies and tied-aid grants. Further negotiations resulted in a multilateral agreement that standardized the fees for sovereign lending across all ECAs beginning in April 1999. Fees for non-sovereign lending, however, continue to vary widely across ECAs and markets, thereby providing implicit subsidies.

The Export-Import Bank attempts to "level the playing field" strategically and to fill gaps in the availability of private export credit. The Export-Import Bank provides export credits, in the form of direct loans or loan guarantees, to U.S. exporters who meet basic eligibility criteria and who request the Bank's assistance. USDA's Export Credit Guarantee Programs (also known as GSM programs) similarly help to level the playing field. Like programs of other agricultural exporting nations, GSM programs guarantee payment from countries and entities that want to import U.S. agricultural products but cannot easily obtain credit.

Stabilizing International Financial Markets

In today's global economy, the health and prosperity of the American economy depend importantly on the stability of the global financial system and the economic health of our major trading partners. The United States can contribute to orderly exchange arrangements and a stable system of exchange rates through the International Monetary Fund and through financial support provided by the Exchange Stabilization Fund (ESF).

The ESF may provide "bridge loans" to other countries in times of short-term liquidity problems and financial crises. A loan or credit may not be made for more than six months in any 12-month period unless the President gives the Congress a written statement that unique or emergency circumstances require the loan or credit be for more than six months.

Using Credit to Promote Sustainable Development

Credit is an important tool in U.S. bilateral assistance to promote sustainable development. USAID's Development Credit Authority (DCA) allows USAID to use a variety of credit tools to support its development activities abroad. DCA provides non-sovereign loan guarantees in targeted cases where credit serves more effectively than traditional grant mechanisms to achieve sustainable development. DCA is intended to mobilize host country private capital to finance sustainable development in line with USAID's strategic objectives. Through the use of partial loan guarantees and risk sharing with the private sector, DCA stimulates private-sector lending for financially viable development projects, thereby leveraging host-country capital and strengthening sub-national capital markets in the developing world. While there is clear demand for DCA's facilities in some emerging economies, the utilization rate for these facilities is still very low.

OPIC also supports a mix of development, employment, and export goals by promoting U.S. direct investment in developing countries. OPIC pursues these goals through political risk insurance, direct loans, and guarantee products, which provide finance, as well as associated skills and technology transfers. These programs are intended to create more efficient financial markets, eventually encouraging the private sector to supplant OPIC finance in developing countries. OPIC has also created a number of investment funds that provide equity to local companies with strong development potential.

Ongoing Coordination

International credit programs are coordinated through two groups to ensure consistency in policy design and credit implementation. The Trade Promotion Coordinating Committee (TPCC) works within the Administration to develop a National Export Strategy to make the delivery of trade promotion support more effective and convenient for U.S. exporters.

The Interagency Country Risk Assessment System (ICRAS) standardizes the way in which most agencies budget for the cost associated with the risk of international lending. The cost of lending by the agencies is governed by proprietary U.S. Government ratings, which correspond to a set of default estimates over a given maturity. The methodology establishes assumptions about default risks in international lending using averages of international sovereign bond market data. The strength of this method is its link to the market and an annual update that adjusts the default estimates to reflect the most recent risks observed in the market.

Promoting Economic Growth and Poverty Reduction through Debt Sustainability

The Enhanced Heavily Indebted Poorest Countries (HIPC) Initiative reduces the debt of some of the poorest countries with unsustainable debt burdens that are committed to economic reform and poverty reduction. Under the HIPC process, the debt of most countries is restructured before being completely forgiven. While not considered part of HIPC relief, a restructuring is often a precursor to HIPC relief. The 2009 President's Budget uses an improved methodology for estimating the long term cost to the Federal Government of HIPC debt restructuring. The revised methodology more accurately reflects a country's creditworthiness after a restructuring given the likelihood of receiving 100 percent debt reduction in the future.

Self-Sufficient Export-Import Bank

The Budget estimates that the Bank's export credit support will total $14 billion, and will be funded entirely by receipts collected from the Bank's customers. The Bank estimates it will collect $164 million in 2009 in excess of expected losses on transactions authorized in 2009 and prior years. These amounts will be used to: (1) cover the estimated costs for that portion of new authorizations where fees are insufficient to cover expected losses; and (2) to cover administrative expenses.

V. INSURANCE PROGRAMS

Deposit Insurance

Federal deposit insurance promotes stability in the U.S. financial system. Prior to the establishment of Federal deposit insurance, failures of some depository institutions often caused depositors to lose confidence in the banking system and rush to withdraw deposits. Such sudden withdrawals caused serious disruption to the economy. In 1933, in the midst of the Depression, the system of Federal deposit insurance was established to protect small depositors and prevent bank failures from causing widespread disruption in financial markets.

Since its creation, the system has undergone a series of reforms, most recently in 2006. The Federal Deposit Insurance Reform Act of 2005 allows the FDIC to better manage the Deposit Insurance Fund. For example, the Act authorizes the FDIC to charge premiums for deposit insurance on a risk-adjusted basis regardless of the level of the FDIC's reserves against its insured deposits, and ensures that all financial institutions pay premiums for Federal insurance on their insured deposits. The FDIC completed implementation of these reforms during 2007.

The FDIC insures deposits in banks and savings associations (thrifts). The National Credit Union Administration (NCUA) insures deposits (shares) in most credit unions (certain credit unions are privately insured). FDIC and NCUA insure deposits up to $100,000 per account. Under the Federal Deposit Insurance Reform Act of 2005, the deposit insurance ceiling for retirement accounts was increased to $250,000. In addition, beginning in 2010, and every five years thereafter, FDIC and NCUA will have the authority to increase deposit insurance coverage limits for retirement and non-retirement accounts based on inflation if the Boards of the FDIC and NCUA determine such an increase is warranted. As of September 30, 2007, FDIC insured $4.24 trillion of deposits at 8,560 commercial banks and thrifts, and NCUA insured $556 billion of deposits (shares) at 8,163 credit unions.

Current Industry Conditions

Significant challenges have confronted the financial sector throughout the second half of calendar year 2007. Although to date the challenges have not caused a large number of failures of insured depository institutions, the outlook for the industry remains uncertain as of the beginning of 2008. During the summer of 2007, a slowdown in the U.S. housing market began to trigger concerns. Rising defaults on "subprime" loans led to markdowns on the value of debt securities backed by these loans. These securities had been packaged by financial institutions and sold to investors around the world. Uncertainty about the value of these complex financial instruments and lack of transparency about who held them led to a much lower appetite for risk and a clear preference for the most liquid and safe investments. This reassessment of risk caused widespread volatility in financial markets.[3]

Many depository institutions entered this period of market uncertainty with strong profitability and a significant capital cushion. The period from 2004–2006 was one of record growth and profitability for many banks and thrifts, and this previous strong performance has to date provided a cushion. As of September 2007, total risk-based capital ratios in the industry averaged 12.75 percent, versus a minimum required level of 8 percent. Depository institutions are also insulated by the fact that many had sold their mortgages—and hence their risk exposure—to the secondary market. In addition, many of the subprime mortgages losing value were originated by state-chartered mortgage companies rather than depository institutions. Thus the risk has been spread beyond the core banking system subject to Federal deposit insurance.

In the current market environment, institutions with a significant presence in structuring and trading mortgage-backed securities (especially the major investment banks) have recorded losses on their portfolios of mortgage-backed securities, as well as lost the fees earned in repackaging and reselling these loans. In the 3rd and 4th quarters of calendar year 2007, major investment banks recorded nearly $70 billion in writedowns due to losses on investments linked to subprime mortgages and structured credit products. While the Federal Government has no direct risk exposure from investment bank losses, many banks and other firms have also encountered difficulty raising cash through the short-term corporate debt markets.

Due to the increasing consolidation of the U.S. banking industry in recent years, the largest institutions have accounted for a growing share of total assets—whereas in 1984 depository institutions with over $10 billion in assets accounted for 42 percent of total assets in the industry, by 2004 the share of those institutions had risen to 73 percent. This consolidation, combined with the fact that many of the larger institutions with significant market and trading presence are those most affected by the current market conditions, has increased the potential risks of a major failure that could put a significant strain on the resources of the Federal deposit insurance funds.

Administration and Regulatory Responses

The financial regulators and the Administration have taken a number of steps to address the underlying problems in the credit and mortgage markets. The President's Working Group on Financial Markets (including the Treasury Department, the Federal Reserve Board, the Securities and Exchange Commission and the Commodity Futures Trading Commission) has the responsibility to examine the recent uncertainty in credit markets and work to ensure that market integrity and efficiency are not compromised. In regard to mortgage markets, in addition to the Administration proposals for modernization of the Federal Housing Administration and reform of the oversight of the housing GSEs (mentioned earlier in this chapter) the Administration has partnered with the private sector to assemble a group of lenders, loan servicers, mortgage counselors, and investors (the HOPE NOW Alliance) to identify troubled borrowers and help them refinance or modify their mortgages, so more families can stay in their homes. The HOPE NOW Alliance consists of four counseling organizations, 21 mortgage servicers and lenders (comprising 65 percent of the U.S. market for mortgage servicing and almost 85 percent of the subprime servicing market), three investor groups (including the American Securitization Forum, which represents over 370 members), and 10 trade associations. These efforts should reduce foreclosure rates and support the continued flow of capital to mortgage markets.

To aid this effort, during December 2007 Congress passed the Mortgage Forgiveness Debt Relief Act of 2007, an Administration proposal that for the next few years (through 2010) will allow borrowers to obtain relief from taxes on writedowns of loan principal during a refinancing. The Administration has also proposed to allow state and local governments to temporarily broaden their tax-exempt bond programs to include mortgage refinancings.

The Federal banking regulators (Federal Reserve, Office of the Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), and FDIC) have been closely monitoring banks' core capital levels as well as their potential susceptibility to market disruptions. During 2007, the regulators jointly issued final guidance addressing non-traditional and subprime mortgage practices, as well as guidance encouraging their institutions to proactively aid borrowers to refinance subprime mortgages.

The Federal Reserve and other Federal banking regulators have been developing new regulations to improve disclosure of mortgage and credit card terms, restrain certain practices in mortgage lending, and address unfair and deceptive lending practices more broadly. Complementing these efforts, this year HUD will also propose clearer disclosure of mortgage lending and home purchase closing costs, as mandated by the Real Estate Settlement Procedures Act. The draft text of the regulations on credit cards and mortgage lending were released for public comment in 2007, and the regulators will likely finalize these regulations during 2008.

Recent Performance of the Federal Deposit Insurance Funds

From July 2004 through January 2007, the performance of the Federal deposit insurance program was strong. No banks or thrifts failed during this period—the longest interlude without a failure in the 73-year history of the FDIC. However, there has been a deterioration of conditions in the industry since summer 2007. As of September 30, 2007, the FDIC classified 65 institutions with $18.5 billion in assets as "problem institutions" (institutions with the highest risk ratings), a

[3] For a much more detailed discussion of the problems in credit markets during 2007 and their implications, please see Chapter 2 of the 2008 Economic Report of the President.

level of problem assets more than four times higher than the comparable statistics from September 2006. The largest institution to fail since the early 1990s, NetBank (a Georgia thrift with $2.5 billion in assets) was placed in FDIC receivership in September 2007, and overall three institutions failed during 2007.

At the end of September 2007, the Deposit Insurance Fund reserve ratio (ratio of insurance reserves to insured deposits) stood at 1.22 percent—$1.2 billion below the level that would meet the target reserve ratio. Taking the redemption of credits into consideration, along with continued growth in insured deposits and a higher rate of potential failures given current conditions in the industry, the Budget projects that the FDIC will collect approximately $4.7 billion in new revenue from premiums during 2008 and 2009 combined.

The National Credit Union Share Insurance Fund, the Federal fund for credit unions that is analogous to the Deposit Insurance Fund for banks and thrifts, ended September 2007 with assets of $7.4 billion and an equity ratio of 1.31 percent, topping the NCUA-set target ratio of 1.30 percent. Over the past five years, the Share Insurance Fund's equity ratio has gradually risen from about 1.27 percent, reflecting few losses due to failures in the credit union industry. Recent market volatility, however, may increase observed losses in the credit union industry. The number of problem institutions reported by the NCUA has steadily risen during 2007, and the Share Insurance Fund has set aside more than $57 million to cover potential insurance losses from January through November 2007, versus only $2.5 million in loss expenses for all of calendar year 2006.

Basel II: Transition to a New Bank Capital Regime

A major regulatory initiative is currently underway in the banking sector, which is likely to have a significant impact on the banking sector as a whole and, by extension, on the Federal deposit insurance system. The Federal banking regulators are implementing an international agreement called the Revised Framework for the International Convergence of Capital Measurement and Capital Standards ("Basel II").

Since equity capital serves as a cushion against potential losses, banks with riskier asset portfolios should hold more equity capital. The original Basel Capital Accord (Basel I) adopted in 1989 is an international accord among financial regulators establishing a uniform capital standard for banks across nations. Under Basel I, bank assets are grouped into a small number of broad risk categories. A bank's regulatory capital requirement is tied to the amount of its asset holdings in each risk category.

During 2007, the Federal banking regulators completed issuance of the rules implementing the Basel II advanced approach, the first half of the US effort to implement the Revised Basel Capital Accord. In the final Basel II advanced rule, U.S. regulators require the ten or so largest banks (including those that have major international operations, complex financial structures and expertise) to use an advanced internal ratings-based approach to calculate their credit risk capital requirements. The Basel II rulemaking allows for greater sensitivity to risk in the portfolios these banks hold. Rather than grouping assets into broad risk categories, capital requirements are tied to banks' internal assessments of the likelihood and severity of default losses from the assets they hold. The rules are also intended to allow capital requirements to more accurately account for the benefits or risk-mitigation activities undertaken by banks. The rulemaking also requires banks to hold capital to cover operational risk, which is not covered under the existing (Basel I) requirements.

Implementation of the Basel II standard in Europe began during 2007. Implementation of the U.S. Basel II rulemaking will begin with a "parallel run" on April 1, 2008 and formally go into effect for the first of three transitional years on January 1, 2009. This delay has led to concerns about a competitive imbalance between U.S. and foreign banks. There are also concerns about competitive imbalance between U.S. banks, and for that reason, regulators are expected to allow banks other than the ten largest U.S. banks to be able to choose between adopting the "Basel II advanced" approach, the current "Basel I" system, and an alternative "Basel II standardized" approach.

The "Basel II standardized" approach is intended to be more risk-sensitive than Basel I, but easier to implement than the advanced Basel II approach. The "standardized" approach is intended to be broadly based upon a system proposed by the Basel committee that provides additional risk-sensitivity through use of external credit ratings, and internal risk measures for some types of assets (i.e., loan-to-value ratios for mortgages). This alternative approach would allow banks to potentially lower their capital requirements and provide small- and mid-sized banks a means to stay competitive with the larger Basel II banks. The regulators are working to develop the standardized approach and are expected to release the draft text for public comment during 2008.

Pension Guarantees

The Pension Benefit Guaranty Corporation (PBGC) insures pension benefits of workers and retirees in covered defined-benefit pension plans sponsored by private-sector employers. PBGC pays benefits, up to a guaranteed level, when a company with an underfunded pension plan meets the legal criteria to transfer its obligations to the pension insurance program. PBGC's claims exposure is the amount by which qualified benefits exceed assets in insured plans. In the near term, the risk of loss stems from financially distressed firms with underfunded plans. In the longer term, loss exposure results from the possibility that healthy firms become distressed and well-funded plans become underfunded due to inadequate contributions, poor investment results, or increased liabilities.

PBGC monitors companies with underfunded plans and acts to protect the interests of the pension insurance program's stakeholders where possible. Under its Early Warning Program, PBGC works with companies to strengthen plan funding or otherwise protect the insurance program from avoidable losses. However, PBGC's authority to prevent undue risks to the insurance program is limited.

As a result of a flawed pension funding system and exposure to losses from financially troubled plan sponsors, PBGC's single-employer program incurred substantial losses from underfunded plan terminations in 2001 through 2006. The table below shows the ten largest plan termination losses in PBGC's history. Nine of the ten have come since 2001.

The program's deficit at 2007 year-end stood at $13.1 billion, compared to a $9.7 billion surplus at 2000 year-end. This is actually a $5 billion improvement from 2006. PBGC's operating results are subject to significant fluctuation from year to year, depending on the severity of losses from plan terminations, changes in the interest factors used to discount future benefit payments, investment performance, general economic conditions and other factors such as changes in law. While the improvement may give the impression that PBGC's financial condition has improved, in fact its long-term loss exposure and flawed funding system continue to threaten its financial sustainability. [4]

[4] In addition, the airline relief provisions in the Pension Protection Act of 2006, which resulted in large plans previously classified as probable terminations being changed to the reasonably possible classification in 2006, likely postponed rather than eliminated losses, as it is likely that the airlines will eventually relapse and present a claim to the PBGC. If PBGC's deficit were calculated without regard to PPA airline provisions, PBGC estimates that its net deficit shown in this report would be approximately $8 billion higher (assuming 2006 underfunding levels for the specific airline plans remained constant).

In February 2005 the Administration proposed comprehensive reforms to address structural flaws in the statutory plan funding requirements and in the design of the insurance program. The proposal sought to strengthen funding for workers' defined-benefit pensions; provide more accurate information about pension liabilities and plan underfunding; and enable PBGC to meet its obligations to participants in terminated pension plans. Many of the President's reforms were incorporated into the Deficit Reduction Act (DRA) of 2005, enacted in February 2006, and the Pension Protection Act of 2006 (PPA), enacted in August 2006. This legislation made significant structural changes to the retirement system, but did not fully address the long-term challenges facing PBGC. While the PBGC has sufficient liquidity to meet its obligations for a number of years, neither the single-employer nor multiemployer program has the resources to satisfy fully the agency's long-term obligations to plan participants.

Further reforms are needed to address the current $14 billion gap between PBGC's liabilities and its assets. The Budget proposes to give PBGC's Board the authority to raise premiums to produce the revenue necessary to meet expected future claims and retire PBGC's deficit over ten years. The current rate-setting mechanism is inflexible and does not allow the PBGC to respond to changing conditions in the defined benefit plan universe, in the financial markets in which pension plans invest, or in its own financial condition.

Under this proposal, PBGC's Board would have the flexibility to make a broad range of changes to pre-

LARGEST TEN CLAIMS AGAINST THE PBGC'S SINGLE-EMPLOYER INSURANCE PROGRAM, 1975–2006

Top 10 Firms	Fiscal Years of Plan Terminations	Claims (by firm)	Percent of Total Claims (1975–2005)
1. United Airlines	2005	$7,484,348,482	22.90%
2. Bethlehem Steel	2003	3,654,380,116	11.20%
3. US Airways	2003, 2005	2,690,222,805	8.20%
4. LTV Steel*	2002, 2003, 2004	2,136,698,831	6.50%
5. National Steel	2003	1,275,628,286	3.90%
6. Pan American Air	1991, 1992	841,082,434	2.60%
7. Weirton Steel	2004	690,181,783	2.10%
8. Trans World Airlines	2001	668,377,106	2.00%
9. Kaiser Aluminum	2004	600,009,879	1.80%
10. Kemper Insurance	2005	568,417,151	1.70%
Top 10 Total	....	20,609,346,871	63.20%
All Other Total	....	12,017,433,400	36.80%
TOTAL	....	**$32,626,780,271**	**100.00%**

Sources: PBGC Fiscal Year Closing File (9/30/07), PBGC Case Administration System, and PBGC Participant System (PRISM).

Due to rounding, percentages may not add up to 100 percent.

Data in this table have been calculated on a firm basis and include all plans of each firm.

Values and distributions are subject to change as PBGC completes its reviews and establishes termination dates.

* Does not include 1986 termination of a Republic Steel plan sponsored by LTV.

miums in an effort to improve PBGC's financial condition and safeguard the future benefits of American workers. The Administration is committed to restoring the solvency of the pension insurance system and avoiding a future taxpayer bailout.

Disaster Insurance

Flood Insurance

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Agency of the Department of Homeland Security (DHS). Flood insurance is available to homeowners and businesses in communities that have adopted and enforced appropriate flood plain management measures. Coverage is limited to buildings and their contents. By the end of 2007, the program had over 5.5 million policies in more than 20,200 communities with over $1 trillion of insurance in force.

Prior to the creation of the program in 1968, many factors made it cost prohibitive for private insurance companies alone to make affordable flood insurance available. In response, the NFIP was established to make affordable insurance coverage widely available. The NFIP requires building standards and other mitigation efforts to reduce losses, and operates a flood hazard mapping program to quantify the geographic risk of flooding. These efforts have made substantial progress. However, structures built prior to flood mapping and NFIP floodplain management requirements, which make up 26 percent of the total policies in force, pay less than fully actuarial rates.

DHS is using three strategies to increase the number of flood insurance policies in force: lender compliance, program simplification, and expanded marketing. DHS is educating financial regulators about the mandatory flood insurance requirement for properties that are located in floodplains and have mortgages from federally regulated lenders. These strategies have resulted in policy growth of over 3 percent in 2007 with an increase of more than 180,000 policies.

DHS also has a multi-pronged strategy for reducing future flood damage. The NFIP offers flood mitigation assistance grants to assist flood victims to rebuild to current building codes, including base flood elevations, thereby reducing future flood damage costs. In addition, two grant programs targeted toward repetitive and severe repetitive loss properties not only help owners of high-risk property, but also reduce the disproportionate drain on the National Flood Insurance Fund these properties cause through acquisition, relocation, or elevation. DHS is working to ensure that all of the flood mitigation grant programs are closely integrated, resulting in better coordination and communication with State and local governments. Further, through the Community Rating System, DHS adjusts premium rates to encourage community and State mitigation activities beyond those required by the NFIP. These efforts, in addition to the minimum NFIP requirements for floodplain management, save over $1 billion annually in avoided flood damages.

The program's reserve account, which is a cash fund, has sometimes had expenses greater than its revenue, forcing the NFIP to borrow funds from the Treasury in order to meet claims obligations. However, since the program began in 1968 and until 2005, the program has continued to repay all borrowed funds with interest. However, hurricanes Katrina, Rita, and Wilma generated more flood insurance claims than the cumulative number of claims from 1968 to 2004. These three storms resulted in over 234,000 claims with total claims payments expected to be approximately $20 billion. As a result, the Administration and the Congress have increased the borrowing authority to $20.8 billion to date in order to make certain that all claims could be paid.

The catastrophic nature of the 2005 hurricane season has also triggered an examination of the program, and the Administration is working with the Congress to improve the program, based on the following principles: protecting the NFIP's integrity by covering existing commitments; phasing out subsidized premiums in order to charge fair and actuarially sound premiums; increasing program participation incentives and improving enforcement of mandatory participation in the program; increasing risk awareness by educating property owners; and reducing future risks by implementing and enhancing mitigation measures. Although flood insurance reform was not achieved in 2007, the Administration looks forward to continuing to work with the Congress to enact program reforms that further mitigate the impact of flood damages and losses.

Crop Insurance

Subsidized Federal crop insurance administered by USDA's Risk Management Agency (RMA) assists farmers in managing yield and revenue shortfalls due to bad weather or other natural disasters. The program is a cooperative effort between the Federal Government and the private insurance industry. Private insurance companies sell and service crop insurance policies. These companies rely on reinsurance provided by the Federal Government and also by the commercial reinsurance market to manage their individual risk portfolio. The Federal Government reimburses private companies for a portion of the administrative expenses associated with providing crop insurance and reinsures the private companies for excess insurance losses on all policies. The Federal Government also subsidizes premiums for farmers.

The 2009 Budget reflects the Administration's Farm Bill proposals, which include specific proposals for Crop Insurance. These include allowing farmers to purchase supplemental insurance that would cover their deductible in the event of a county-wide loss, reducing the expected loss ratio to 1.00 from 1.075, allowing the private insurance companies access to their data mining information, allow the Standard Reinsurance Agreement to be renegotiated once every 3 years, along with a continuation of a series of crop insurance reforms that have been proposed in the past that will increase program participation and at the same time control program costs.

The 2009 Budget also includes language to open up authorized purposes under the mandatory R&D funds provided by Agriculture Risk Protection Act of 2000 (ARPA). Expansion of authorized uses will include data mining activities, the Common Information Management System (CIMS), and other IT cost related to reducing fraud waste and abuse and IT modernization.

In addition, the 2009 Budget includes a proposal to implement a participation fee in the Federal crop insurance program. The participation fee would be charged to insurance companies participating in the Federal crop insurance program; based on a rate of about one-third cent per dollar of premium sold, the fee is expected to be sufficient to generate about $15 million annually beginning in 2010. The existing IT system is nearing the end of its useful life and recent years have seen increases in "down-time" resulting from system failures. New plans of insurance such as revenue and livestock insurance have greatly increased the size and complexity of the crop insurance program. These changes place a greater burden on the aging IT system resulting in increased IT maintenance costs and limit RMA's ability to comply with Congressional mandates pertaining to data reconciliation with the Farm Service Agency. The participation fee will help alleviate these problems.

There are various types of insurance programs. The most basic type of coverage is catastrophic coverage (CAT), which compensates the farmer for losses in excess of 50 percent of the individual's average yield at 55 percent of the expected market price. The CAT premium is entirely subsidized, and farmers pay only an administrative fee. Higher levels of coverage, called buy-up coverage, are also available. A premium is charged for buy-up coverage. The premium is determined by the level of coverage selected and varies from crop to crop and county to county. For the ten principal crops, which accounted for about 80 percent of total liability in 2007, the most recent data show that over 79 percent of eligible acres participated in the crop insurance program.

RMA offers both yield and revenue-based insurance products. Revenue insurance programs protect against loss of revenue stemming from low prices, poor yields, or a combination of both. These programs extend traditional multi-peril or yield crop insurance by adding price variability to production history.

RMA is continuously trying to develop new products or expand existing products in order to cover more types of crops. Two new Group Risk Protection risk management tools for pasture, rangeland and forage (PRF) protection were approved for the 2007 crop year. These innovative pilot programs are based on vegetation greenness and rainfall indices and were developed to provide livestock producers the ability to purchase insurance protection for losses of forage produced for grazing or harvested for hay. The pilots proved to be more popular than anticipated and both programs are being expanded to new areas for the 2008 crop year. Also new for the 2008 crop year is the Biotech Yield Endorsement (BYE) for non-irrigated corn. The BYE is being pilot tested in four states and will provide producers a premium rate reduction if they plant non-irrigated corn that is intended to be harvested for grain and has three specific biotech traits. The premium reduction is based on data showing that non-irrigated corn containing these specific traits has a lower risk of yield loss than non-traited corn. RMA continues to pursue a number of avenues to increase program participation among underserved States and commodities by working on declining yield issues and looking at discount programs for good experienced producers who pose less risk.

For more information and additional crop insurance program details, please reference RMA's web site: (www.rma.usda.gov).

Insurance Against Security-Related Risks

Terrorism Risk Insurance

On November 26, 2002, President Bush signed into law the Terrorism Risk Insurance Act (TRIA) of 2002 (P.L. 107–297), which was intended to help stabilize the insurance industry during a time of significant transition that followed the terrorist attacks of September 11, 2001. The Act established a temporary, three-year Federal program that provided a system of shared public and private compensation for insured commercial property and casualty losses arising from acts of foreign terrorism (as defined by the Act). In 2005, Congress passed a two-year extension (P.L.109–144), that narrowed the Government's role by increasing private sector retentions, reducing lines of insurance covered by the program, and adding an event trigger amount for Federal payments. In December 2007, Congress passed a seven-year extension (P.L.110–318). The 2007 extension of TRIA added a requirement for commercial property and casualty insurance companies to offer insurance for losses from domestic as well as foreign acts of terrorism. The 2007 extension maintains for all seven extension years an insurer deductible of 20 percent of the prior year's direct earned premiums, an insurer co-payment of 15 percent of insured losses above the deductible, and a $100 million event trigger amount for Federal payments. The 2007 extension changes mandatory recoupment provisions, requiring Treasury to collect 133 percent of the Federal payments made under the program, and accelerates time horizons for recoupment of any payments made before September 30, 2017.

The President's Working Group on Financial Markets (PWG) reported in September 2006 that the Terrorism Risk Insurance Program had achieved its goals of supporting the insurance industry post September 11, 2001. In terms of insurance availability, the PWG and successive industry analyses found record take-up rates in 2006 of nearly 60 percent, compared with 27 percent in 2002. In addition, the PWG found significant improvements in affordability demonstrated by median terrorism insurance premiums falling from $37,700 in 2005 to $16,750 in 2006. These trends are also present in high risk commercial areas like New York City. Furthermore, the estimated $450 billion in industry-wide surplus currently held by property and casualty insurers exceeds pre-September 2001 levels.

The Administration believes that TRIA should not be a permanent program, that private sector retentions under it should be increased, and that over time, the private market is the best provider of reinsurance. Over the coming year the Administration will examine possible changes to current law that could further develop the private terrorism reinsurance market.

The Budget, for the first time, includes the estimated Federal cost of providing terrorism risk insurance, reflecting the 2007 TRIA extension. The growth in the private insurance market for this coverage provides data in the form of insurance premiums that show how private insurers estimate the likelihood of attack and price their projected losses. Using this market driven data, the Government can project annual outlays and recoupment under TRIA. These estimates represent the weighted average of TRIA payments over a full range of scenarios, most of which include no terrorist attacks (and therefore no TRIA payments), and some of which include terrorist attacks of varying magnitudes. The Budget projections, however, are in no way an official forecast of future attacks.

On this basis, the Budget projects the 2007 TRIA extension will have a net deficit impact (spending less receipts from premium surcharges) of $1.78 billion over the 2009–2013 period and $3.85 billion over the 2009–2018 period.

Airline War Risk Insurance

After the September 11, 2001 attacks, private insurers cancelled third-party liability war risk coverage for airlines and dramatically increased the cost of other war risk insurance. In addition to a number of short term responses, the Congress also passed the Homeland Security Act of 2002 (P.L. 107–296). Among other provisions, this Act required the Secretary to provide additional war risk insurance coverage for hull losses and passenger liability to air carriers insured for third-party war risk liability as of June 19, 2002. The Department of Transportation Appropriations Act for 2008 (P.L. 110–161) further extended the requirement to provide insurance coverage through August 31, 2008. Acting on behalf of the Secretary, the FAA has made available insurance coverage for (i) hull losses at agreed value; (ii) death, injury, or property loss liability to passengers or crew, the limit being the same as that of the air carrier's commercial coverage before September 11, 2001; and (iii) third party liability, the limit generally being twice that of such coverage. The Secretary is also authorized to limit an air carrier's third party liability to $100 million, when the Secretary certifies that the loss is from an act of terrorism.

This program provides airlines with financial protection from war risk occurrences, and thus allows airlines to meet the basic requirement for adequate hull loss and liability coverage found in most aircraft mortgage covenants, leases and in government regulation. Without such coverage, many airlines might be grounded. Currently, aviation war risk insurance coverage is generally available from private insurers, but premiums are significantly higher in the private market. Also, private insurance coverage for occurrences involving weapons of mass destruction is more limited.

Currently 75 air carriers are insured by Department of Transportation. Coverage for individual carriers ranges from $80 million to $4 billion per carrier, with the median insurance coverage at approximately $1.8 billion per occurrence. Premiums collected by the Government for these policies are deposited into the Aviation Insurance Revolving Fund. In 2007, the Fund earned approximately $170 million in premiums for insurance provided by DOT, and it is anticipated that an additional $157 million in premiums will be earned in 2008. At the end of 2007, the balance in the Aviation Insurance Revolving Fund available for payment of future claims was $951 million. Although no claims have been paid by the Fund since 2001, the balance in the Fund would be inadequate to meet either the coverage limits of the largest policies in force ($4 billion) or to meet a series of large claims in succession. The Federal Government would pay any claims by the airlines that exceed the balance in the Aviation Insurance Revolving Fund.

Aviation insurance program authority expires on March 30, 2008. The Administration does not support a straight extension of this program and instead favors a return to private sector mechanisms for managing risk. As part of the Federal Aviation Administration (FAA) reauthorization, the Administration has proposed reforms that would gradually transition airlines from government provided insurance to privately provided insurance. Current law caps the premium rates that FAA may charge. Continuation of insurance coverage, if any, should allow FAA to set deductible levels as the first step in moving airlines to the private insurance market and reducing the indirect subsidy that the government currently provides. The Administration is committed to working with the Congress to reform this program, and to ensure that air carriers more equitably share in the risks associated with this program.

Chart 7-4. Face Value of Federal Credit Outstanding

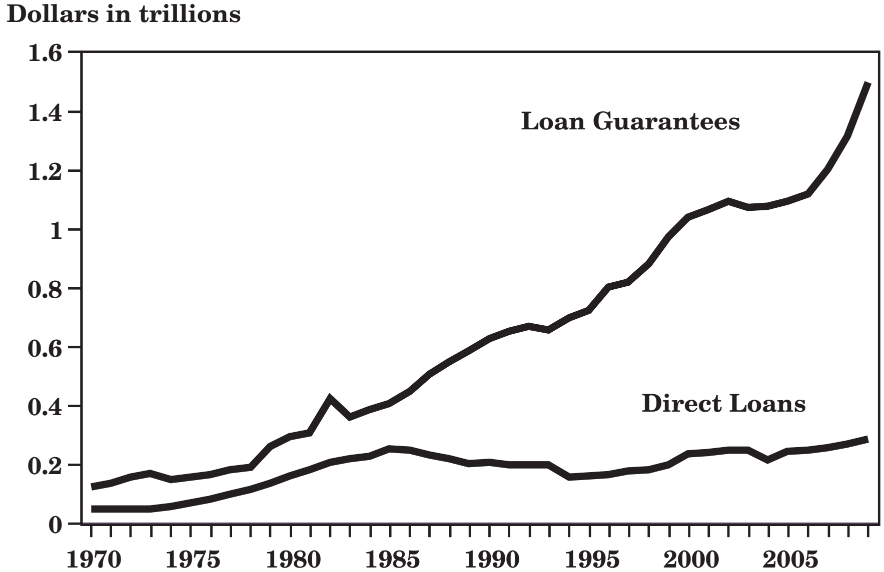


Table 7–1. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL CREDIT PROGRAMS

(In billions of dollars)

Program	Outstanding 2006	Estimated Future Costs of 2006 Outstanding [1]	Outstanding 2007	Estimated Future Costs of 2007 Outstanding [1]
Direct Loans: [2]				
Federal Student Loans	116	16	124	15
Farm Service Agency (excl. CCC), Rural Development, Rural Housing	43	10	44	10
Rural Utilities Service and Rural Telephone Bank	38	2	40	1
Housing and Urban Development	11	3	10	3
P.L. 480	8	4	8	4
Disaster Assistance	7	2	10	2
Export-Import Bank	7	2	6	2
Agency for International Development	7	3	6	2
Commodity Credit Corporation	2	1	1	....
VA Mortgage	1	....	1	-1
Other Direct Loan Programs	12	4	11	5
Total Direct Loans	251	47	260	44
Guaranteed Loans: [2]				
Federal Student Loans	325	52	363	51
FHA-Mutual Mortgage Insurance Fund	317	3	322	7
VA Mortgage	211	3	232	4
FHA-General and Special Risk Insurance Fund	98	1	108	....
Small Business [3]	67	2	72	2
Export-Import Bank	36	2	39	1
Farm Service Agency (excl. CCC), Rural Development, Rural Housing	31	....	32	....
International Assistance	22	2	22	2
Commodity Credit Corporation	3	....	3	....
Maritime Administration	3	....	3	....

Table 7–1. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL CREDIT PROGRAMS—Continued

(In billions of dollars)

Program	Outstanding 2006	Estimated Future Costs of 2006 Outstanding [1]	Outstanding 2007	Estimated Future Costs of 2007 Outstanding [1]
Government National Mortgage Association (GNMA) [3]	....	*	....	*
Other Guaranteed Loan Programs	7	1	6	2
Total Guaranteed Loans	1,120	66	1,202	69
Total Federal Credit	**1,371**	**113**	**1,461**	**113**

* Less than $500 million.

[1] Direct loan future costs are the financing account allowance for subsidy cost and the liquidating account allowance for estimated uncollectible principal and interest. Loan guarantee future costs are estimated liabilities for loan guarantees.

[2] Excludes loans and guarantees by deposit insurance agencies and programs not included under credit reform, such as CCC commodity price supports. Defaulted guaranteed loans which become loans receivable are accounted for as direct loans.

[3] Certain SBA data are excluded from the totals because they are secondary guarantees on SBA's own guaranteed loans. GNMA data are excluded from the totals because they are secondary guarantees on loans guaranteed by FHA, VA and RHS.

Table 7–2. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992–2007 [1]

(Budget authority and outlays, in millions of dollars)

Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
DIRECT LOANS:												
Agriculture:												
Agriculture Credit Insurance Fund	–31	23	....	331	–656	921	10	–701	–147	–2	–14	–251
Farm Storage Facility Loans	....	....	....	....	....	–1	–7	–8	7	–1	....	51
Apple Loans	....	....	....	....	....	–2	1	....	*	*	*	*
Emergency Boll Weevil Loan	....	....	....	....	....	....	1	*	*	3	....	*
Distance Learning and Telemedicine	....	....	....	....	....	1	–1	–1	1	7	1	3
Rural Electrification and Telecommunications Loans	84	....	–39	....	–17	–42	101	265	143	–197	–108	–36
Rural Telephone Bank	10	....	–9	....	–1	....	–3	–7	–6	–17	–48	–22
Rural Housing Insurance Fund	–73	....	71	....	19	–29	–435	–64	–200	109	....	4
Rural Economic Development Loans	1	....	–1	*	....	–1	–1	....	–2	*	–3	3
Rural Development Loan Program	....	....	–6	....	....	–1	–3	....	–3	–2	–7	*
Rural Community Advancement Program [2]	8	....	5	....	37	3	–1	–84	–34	–73	–77	–8
P.L. 480	–1	....	....	....	–23	65	–348	33	–43	–239	–26	44
P.L. 480 Title I Food for Progress Credits	....	....	....	....	....	....	–112	–44	....	....	....	....
Commerce:												
Fisheries Finance	....	....	....	....	–19	–1	–3	....	1	–15	–12	11
Defense:												
Military Housing Improvement Fund	....	....	....	....	....	....	....	....	*	–4	–1	–8
Education:												
Federal Direct Student Loan Program: [3]												
Volume Reestimate	....	....	22	....	–6	....	43	....	....	....	....	....
Other Technical Reestimate	–83	172	–383	–2,158	560	....	3,678	1,999	855	2,827	2,674	408
College Housing and Academic Facilities Loans	....	....	....	....	–1	....	....	....	....	....	*	*
Historically Black Colleges and Universities	....	....	....	....	....	....	....	....	....	....	11	–16
Homeland Security:												
Disaster Assistance	....	....	....	47	36	–7	–6	*	4	*	*	*
Interior:												
Bureau of Reclamation Loans	....	....	....	3	3	–9	–14	....	17	1	1	5
Bureau of Indian Affairs Direct Loans	....	....	1	5	–1	–1	2	*	*	*	1	–1
Assistance to American Samoa	....	....	....	....	....	....	....	*	*	....	2	–1
Transportation:												
High Priority Corridor Loans	....	–3	....	....	....	....	....	....	....	....	....	....
Alameda Corridor Loan	....	....	....	–58	....	....	....	–12	....	....	....	....
Transportation Infrastructure Finance and Innovation	....	....	....	....	18	....	....	....	3	–11	7	11
Railroad Rehabilitation and Improvement Program	....	....	....	....	....	....	....	–5	–14	–11	–1	15
Treasury:												
Community Development Financial Institutions Fund	....	....	....	1	....	....	*	–1	*	–1	1	*
Veterans Affairs:												
Veterans Housing Benefit Program Fund	–72	465	–111	–52	–107	–697	17	–178	987	–44	–76	–402
Native American Veteran Housing	....	....	....	....	....	....	–3	*	*	*	1	1
Vocational Rehabilitation Loans	....	....	....	....	....	....	*	*	*	–1	1	–1
Environmental Protection Agency:												
Abatement, Control and Compliance	....	....	....	....	3	–1	*	–3	*	*	*	*
International Assistance Programs:												
Foreign Military Financing	13	4	1	152	–166	119	–397	–64	–41	–7	–6	–30
U.S. Agency for International Development:												
Micro and Small Enterprise Development	....	....	....	....	....	*	....	*	....	....	....	....
Overseas Private Investment Corporation:												
OPIC Direct Loans	....	....	....	....	....	....	–4	–21	3	–7	72	31
Debt Reduction	....	....	....	36	–4	....	*	–47	–104	54	–3	....
Small Business Administration:												
Business Loans	....	....	....	....	1	–2	1	25	....	–16	–4	4
Disaster Loans	....	–193	246	–398	–282	–14	266	589	196	61	258	–109
Other Independent Agencies:												
Export-Import Bank Direct Loans	....	....	....	–177	157	117	–640	–305	111	–257	–227	–120
Federal Communications Commission	....	4,592	980	–1,501	–804	92	346	380	732	–24	11	....
LOAN GUARANTEES:												
Agriculture:												
Agriculture Credit Insurance Fund	–51	96	....	–31	205	40	–36	–33	–22	–162	20	–36
Agriculture Resource Conservation Demonstration	....	....	....	....	2	....	1	–1	*	*	....	....
Commodity Credit Corporation Export Guarantees	343	....	....	....	–1,410	....	–13	–230	–205	–366	–232	–225
Rural Development Insurance Fund	–3	....	....	....	....	....	....	....	....	....	....	....

Table 7–2. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992–2007 [1]—Continued

(Budget authority and outlays, in millions of dollars)

Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Rural Housing Insurance Fund	–10	....	109	....	152	–56	32	50	66	44	....	–19
Rural Community Advancement Program [2]	–10	....	41	....	63	17	91	15	29	–64	–16	–10
Renewable Energy	....	....	....	....	....	....	....	....	....	....	*	*
Commerce:												
Fisheries Finance	....	–2	....	....	–3	–1	3	*	1	*	1	*
Emergency Steel Guaranteed Loans	....	....	....	....	....	....	50	*	3	–75	–13	1
Emergency Oil and Gas Guaranteed Loans	....	....	....	....	*	*	*	*	*	–1	*	*
Defense:												
Military Housing Improvement Fund	....	....	....	....	....	....	....	–3	–1	–3	–5	–1
Defense Export Loan Guarantee	....	....	....	....	....	....	....	....	–5	....	....	....
Arms Initiative Guaranteed Loan Program	....	....	....	....	....	....	....	....	....	....	....	20
Education:												
Federal Family Education Loan Program: [3]												
Volume Reestimate	99	....	–13	–60	–42	....	277	....	....	....	....	....
Other Technical Reestimate	....	....	–140	667	–3,484	....	–2,483	–3,278	1,348	6,837	–3,399	–189
Health and Human Services:												
Heath Center Loan Guarantees	....	....	....	3	....	*	*	....	1	*	*	–1
Health Education Assistance Loans	....	....	....	....	....	....	–5	–37	–33	–18	–20	*
Housing and Urban Development:												
Indian Housing Loan Guarantee	....	....	....	....	–6	*	–1	*	–3	–1	*	–5
Title VI Indian Guarantees	....	....	....	....	....	....	–1	1	4	*	–4	–3
Community Development Loan Guarantees	....	....	....	....	....	....	....	19	–10	–2	4	1
FHA-Mutual Mortgage Insurance	–340	....	3,789	....	2,413	–1,308	1,100	5,947	1,979	2,842	636	3,923
FHA-General and Special Risk	–25	743	79	....	–217	–403	77	352	507	238	–1,254	–362
Interior:												
Bureau of Indian Affairs Guaranteed Loans	31	....	....	....	–14	–1	–2	–2	*	15	5	–30
Transportation:												
Maritime Guaranteed Loans (Title XI)	....	....	–71	30	–15	187	27	–16	4	–76	–11	–51
Minority Business Resource Center	....	....	....	....	....	1	....	*	*	....	*	*
Treasury:												
Air Transportation Stabilization Program	....	....	....	....	....	....	113	–199	292	–109	–95	....
Veterans Affairs:												
Veterans Housing Benefit Fund Program	–706	38	492	229	–770	–163	–184	–1,515	–462	–842	–525	183
International Assistance Programs:												
U.S. Agency for International Development:												
Development Credit Authority	....	....	....	....	....	–1	....	1	–3	–2	2	11
Micro and Small Enterprise Development	....	....	....	....	....	....	....	2	–2	....	–3	*
Urban and Environmental Credit	....	–14	....	....	....	–4	–15	48	–2	–5	–11	–22
Assistance to the New Independent States of the Former Soviet Union	....	....	....	....	....	–34	....	....	....	....	....	....
Loan Guarantees to Israel	....	....	....	....	....	....	....	–76	–111	188	34	–16
Loan Guarantees to Egypt	....	....	....	....	....	....	....	....	....	7	14	–12
Overseas Private Investment Corporation:												
OPIC Guaranteed Loans	....	....	....	....	....	5	77	60	–212	–21	–149	–268
Small Business Administration:												
Business Loans	–16	–279	–545	–235	–528	–226	304	1,750	1,034	–390	–268	–140
Other Independent Agencies:												
Export-Import Bank Guarantees	....	....	....	–191	–1,520	–417	–2,042	–1,133	–655	–1,164	–579	–174
Total	–832	5,642	4,518	–3,357	–6,427	–1,854	–142	3,468	6,008	9,003	–3,441	2,161

* Less than $500,000.
[1]Excludes interest on reestimates. Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement.
[2]Includes Rural Water and Waste Disposal, Rural Community Facilities, and Rural Business and Industry programs.
[3]Volume reestimates in mandatory programs represent a change in volume of loans disbursed in the prior years.

Table 7–3. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2007-2009

(In millions of dollars)

Agency and Program	2007 Actual			2008 Enacted			2009 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
Agriculture:									
Agricultural Credit Insurance Fund Program Account	9.32	92	985	9.28	88	948	9.37	88	944
Farm Storage Facility Loans Program Account	0.38	1	174	1.01	2	153	6.11	9	153
Rural Community Advancement Program [2]	9.09	132	1,451	....	....	....	....	....	....
Rural Electrification and Telecommunications Loans Program Account	–0.67	–29	4,267	–0.57	–41	7,284	–2.05	–98	4,790
Distance Learning, Telemedicine, and Broadband Program	1.98	5	283	2.15	12	523	3.90	12	298
Rural Water and Waste Disposal Program Account	....	....	....	6.81	70	1,025	3.77	48	1,269
Rural Community Facilities Program Account	....	....	....	5.55	22	404	5.72	17	302
Rural Housing Assistance Grants	47.82	1	2	....	....	....	....	....	....
Farm Labor Program Account	47.95	16	33	43.26	13	31	....	....	....
Multifamily Housing Revitalization Program Account	....	....	....	46.39	6	14	....	....	....
Rural Housing Insurance Fund Program Account	13.42	181	1,354	11.85	156	1,313	12.93	6	38
Rural Development Loan Fund Program Account	44.07	15	34	42.89	14	34	41.85	14	34
Rural Economic Development Loans Program Account	21.84	6	26	22.59	7	33	....	....	....
Commerce:									
Fisheries Finance Program Account	–8.02	–4	48	–3.72	–4	90	–12.78	–1	8
Defense—Military:									
Defense Family Housing Improvement Fund	14.57	59	406	23.86	109	457	43.50	47	107
Education:									
College Housing and Academic Facilities Loans Program Account	65.22	304	467	....	....	....	16.31	10	61
TEACH Grant Program Account	....	....	....	13.03	7	57	13.05	14	105
Loans for Short-Term Training Program Account	....	....	....	....	....	....	–0.27	....	46
Federal Direct Student Loan Program Program Account	1.37	258	18,850	0.76	169	19,891	1.13	250	21,048
Homeland Security:									
Disaster Assistance Direct Loan Program Account	....	....	....	1.73	....	25	1.04	....	25
Housing and Urban Development:									
FHA-Mutual Mortgage Insurance Program Account	....	....	3	....	....	50	....	....	50
State:									
Repatriation Loans Program Account	60.14	1	1	60.22	1	1	59.77	1	1
Transportation:									
Federal-aid Highways	3.92	30	766	10.00	232	2,320	10.00	100	998
Railroad Rehabilitation and Improvement Program	....	....	103	....	....	600	....	....	600
Treasury:									
Community Development Financial Institutions Fund Program Account	37.47	....	1	37.52	3	8	37.88	1	2
Veterans Affairs:									
Housing Program Account	5.08	6	122	0.55	2	337	–0.16	....	328
Native American Veteran Housing Loan Program Account	–13.46	–1	8	–14.48	–2	12	–10.07	–1	13
General Operating Expenses	2.00	....	3	2.16	....	3	1.93	....	3
International Assistance Programs:									
Debt Restructuring	....	31	....	....	107	....	....	34	....
Overseas Private Investment Corporation Program Account	4.42	13	291	3.22	11	342	2.34	11	450
Small Business Administration:									
Disaster Loans Program Account	17.73	267	1,506	16.27	156	959	14.92	158	1,061
Business Loans Program Account	10.21	2	19	10.12	2	20	....	....	25
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account	....	....	....	33.01	17	50	33.01	17	50
Total	**N/A**	**1,386**	**31,203**	**N/A**	**1,159**	**36,984**	**N/A**	**737**	**32,809**

[1] Additional information on credit subsidy rates is contained in the Federal Credit Supplement.
[2] 2007 data include Rural Water and Waste Disposal and Rural Community Facilities loan programs.
N/A = Not applicable.

Table 7–4. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2007-2009

(In millions of dollars)

Agency and Program	2007 Actual			2008 Enacted			2009 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
Agriculture:									
Agricultural Credit Insurance Fund Program Account	2.58	56	2,155	2.58	67	2,607	2.61	65	2,497
Commodity Credit Corporation Export Loans Program Account	2.92	39	1,334	2.33	53	2,274	0.96	26	2,675
Rural Community Advancement Program [2]	4.09	45	1,090	....	....	....	....	....	....
Rural Water and Waste Disposal Program Account	....	....	....	–0.82	–1	75	–0.82	–1	75
Rural Community Facilities Program Account	....	....	....	3.68	8	210	3.08	6	210
Rural Housing Insurance Fund Program Account	1.37	51	3,754	1.37	84	6,141	0.30	16	5,149
Rural Business Program Account	....	....	....	4.33	63	1,463	4.35	30	700
Renewable Energy Program Account	6.49	4	57	9.69	18	184	....	....	....
Education:									
Loans for Short-Term Training Program Account	....	....	....	....	....	....	1.02	3	316
Federal Family Education Loan Program Account	6.29	6,850	108,873	1.07	1,077	100,559	2.21	2,407	109,117
Energy:									
Title 17 Innovative Technology Loan Guarantee Program	....	....	....	....	90	600	....	....	2,220
Health and Human Services:									
Health Resources and Services	3.42	1	28	3.41	....	8	....	....	....
Housing and Urban Development:									
Indian Housing Loan Guarantee Fund Program Account	2.35	5	235	2.42	9	367	2.52	11	420
Native Hawaiian Housing Loan Guarantee Fund Program Account	2.35	1	43	2.42	1	41	2.52	1	41
Native American Housing Block Grant	11.99	1	12	12.12	2	17	12.34	2	17
Community Development Loan Guarantees Program Account	2.17	4	201	2.25	5	200	....	....	....
FHA-Mutual Mortgage Insurance Program Account	–0.37	–209	56,519	–0.51	–368	72,172	–0.49	–749	151,280
FHA-General and Special Risk Program Account	–2.46	–813	32,927	–1.76	–693	39,346	–2.20	–143	6,530
Interior:									
Indian Guaranteed Loan Program Account	6.45	6	87	6.53	6	86	7.73	7	85
Transportation:									
Minority Business Resource Center Program	1.82	....	3	2.03	....	18	1.86	....	18
Federal-aid Highways	....	....	....	10.00	20	200	10.00	20	200
Railroad Rehabilitation and Improvement Program	....	....	....	....	....	100	....	....	100
Maritime Guaranteed Loan (Title XI) Program Account	....	....	....	4.35	5	115	....	....	....
Veterans Affairs:									
Housing Program Account	–0.36	–87	24,186	–0.34	–120	35,197	–0.66	–236	35,817
International Assistance Programs:									
Loan Guarantees to Israel Program Account	....	....	....	....	....	700	....	....	700
Development Credit Authority Program Account	1.99	7	350	6.00	21	348	3.05	15	475
Overseas Private Investment Corporation Program Account	–0.59	–8	1,333	–1.75	–23	1,338	–0.84	–11	1,400
Small Business Administration:									
Business Loans Program Account	....	....	20,506	....	....	28,000	–0.01	–5	28,000
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account	–0.15	–18	12,569	–1.74	–238	13,710	–1.79	–248	13,807
Total	**N/A**	**5,935**	**266,262**	**N/A**	**86**	**306,076**	**N/A**	**1,216**	**361,849**
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENTS									
GNMA:									
Guarantees of Mortgage-backed Securities Loan Guarantee Program Account	–0.21	–193	85,071	–0.21	–163	77,400	–0.21	–163	77,400
SBA:									
Secondary Market Guarantee Program	....	....	3,678	....	....	12,000	....	....	12,000
Total, secondary guaranteed loan commitments	**N/A**	**–193**	**88,749**	**N/A**	**–163**	**89,400**	**N/A**	**–163**	**89,400**

[1] Additional information on credit subsidy rates is contained in the Federal Credit Supplement.
[2] 2007 data include Rural Water and Waste Disposal, Rural Community Facilities, and Rural Business and Industry loan guarantee programs.
N/A = Not applicable.

Table 7–5. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES

(In billions of dollars)

	Actual								Estimate	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Direct Loans:										
Obligations	37.1	39.1	43.7	45.4	42.0	56.3	57.8	42.5	44.7	39.9
Disbursements	35.5	37.1	39.6	39.7	38.7	50.6	46.6	41.7	42.1	40.5
New subsidy budget authority	–0.4	0.3	*	0.7	0.4	2.1	4.7	1.7	5.3	0.7
Reestimated subsidy budget authority [1]	–4.4	–1.8	0.5	2.9	2.6	3.8	3.1	3.4	–0.6	....
Total subsidy budget authority	–4.8	–1.5	0.5	3.5	3.0	6.0	7.8	5.1	4.7	0.7
Loan Guarantees:										
Commitments [2]	192.6	256.4	303.7	345.9	300.6	248.5	280.7	266.5	306.1	361.9
Lender disbursements [2]	180.8	212.9	271.4	331.3	279.9	221.6	256.0	251.2	270.3	340.6
New subsidy budget authority	3.6	2.3	2.9	3.8	7.3	10.1	17.2	5.7	–2.6	1.1
Reestimated subsidy budget authority [1]	0.3	–7.1	–2.4	–3.5	2.0	3.5	7.0	–6.8	3.6	....
Total subsidy budget authority	3.9	–4.8	0.5	0.3	9.3	13.6	24.2	–1.1	1.0	1.1

* Less than $50 million.

[1] Includes interest on reestimate.

[2] To avoid double-counting, totals exclude GNMA secondary guarantees of loans that are guaranteed by FHA, VA, and RHS, and SBA's guarantee of 7(a) loans sold in the secondary market.

Table 7–6. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	2007 Actual	2008 Estimate	2009 Estimate	2007 Actual	2008 Estimate	2009 Estimate
DIRECT LOAN WRITEOFFS						
Agriculture:						
Agricultural Credit Insurance Fund	98	70	70	1.55	1.13	1.15
Rural Community Facility	1	....	....	0.05	....	....
Rural Electrification and Telecommunications Loans	1	....	....	0.00	....	....
Rural Business Investment Program	14	4	4	22.95	8.51	10.26
Rural Housing Insurance Fund	168	97	100	0.68	0.40	0.42
Rural Development Loan Fund	1	1	1	0.06	0.06	0.07
Commerce:						
Economic Development Revolving Fund	1	....	....	16.67	....	....
Education:						
Student Financial Assistance	14	13	13	4.40	4.21	4.33
Perkins Loan Assets	....	....	54	....	....	1.46
Housing and Urban Development:						
Revolving Fund (Liquidating Programs)	1	1	1	16.67	25.00	50.00
Guarantees of Mortgage-backed Securities	1	12	13	12.50	85.71	56.52
Interior:						
Revolving Fund for Loans	3	1	1	21.43	10.00	12.50
Treasury:						
Community Development Financial Institutions Fund	1	....	....	1.54	....	....
Veterans Affairs:						
Veterans Housing Benefit Program	40	78	49	4.72	10.68	6.51
International Assistance Programs:						
Debt Restructuring	....	29	....	....	12.89	....
Overseas Private Investment Corporation	2	15	15	0.26	1.73	1.48
Small Business Administration:						
Disaster Loans	107	136	157	1.34	1.51	1.81
Business Loans	7	5	4	4.05	3.27	2.96
Other Independent Agencies:						
Debt Reduction (Export-Import Bank)	7	65	....	2.33	24.62	....
Export-Import Bank	16	10	10	0.28	0.26	0.32
Spectrum Auction Program	1	172	111	0.25	59.11	74.00
Tennessee Valley Authority Fund	1	1	1	1.89	1.79	1.67
Total, direct loan writeoffs	485	710	604	0.21	0.30	0.25
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Agriculture:						
Agricultural Credit Insurance Fund	8	48	48	0.08	0.46	0.42
Commodity Credit Corporation Export Loans	16	26	17	0.50	0.67	0.35
Rural Business and Industry Loans	95	112	132	2.52	2.98	3.35
Rural Community Facility Loans	4	4	4	0.66	0.54	0.45
Rural Housing Insurance Fund	239	271	312	1.46	1.46	1.49
Defense—Military:						
Procurement of Ammunition, Army	15	....	....	125.00	....	....
Family Housing Improvement Fund	....	7	7	....	1.43	1.46
Education:						
Loans for Short-Term Training	....	....	3	....	....	3.85
Federal Family Education Loans	7,416	7,004	7,924	2.16	1.83	1.88
Energy:						
Title 17 Innovative Technology Guarantees	....	1	3	....	0.67	0.39
Health and Human Services:						
Health Education Assistance Loans	18	19	19	1.44	1.78	2.04
Health Center Loan Guarantees	....	1	....	....	1.64	....
Housing and Urban Development:						
Indian Housing Loan Guarantee	1	1	1	0.21	0.13	0.09
Native American Housing Block Grant	....	2	2	....	2.15	1.98
FHA-Mutual Mortgage Insurance	5,152	8,476	10,290	1.61	2.52	2.56
FHA-General and Special Risk Insurance	1,009	1,737	2,176	0.98	1.56	1.89

Table 7–6. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS—Continued

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	2007 Actual	2008 Estimate	2009 Estimate	2007 Actual	2008 Estimate	2009 Estimate
Interior:						
Indian Guaranteed Loans	2	2	3	0.60	0.56	0.84
Veterans Affairs:						
Veterans Housing Benefit Program	855	1,881	1,806	0.39	0.77	0.66
International Assistance Programs:						
Micro and Small Enterprise Development	1	1	1	14.29	25.00	50.00
Urban and Environmental Credit Program	3	5	5	1.53	1.15	1.32
Housing and Other Credit Guaranty Programs	15	7	12	14.29	25.00	50.00
Development Credit Authority	3	2	2	1.31	0.66	0.51
Overseas Private Investment Corporation	172	100	150	4.01	2.08	2.79
Small Business Administration:						
Business Loans	1,083	1,254	1,620	1.56	1.70	2.04
Other Independent Agencies:						
Export-Import Bank	237	225	225	0.64	0.57	0.54
Total, guaranteed loan terminations for default	16,344	21,186	24,762	1.03	1.25	1.33
Total, direct loan writeoffs and guaranteed loan terminations	16,829	21,896	25,366	0.93	1.14	1.20
ADDENDUM: WRITEOFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Agriculture:						
Agricultural Credit Insurance Fund	5	7	7	9.80	11.67	10.94
Education:						
Federal Family Education Loan	1,091	1,228	1,308	5.38	5.71	6.05
Housing and Urban Development:						
FHA-Mutual Mortgage Insurance	....	20	4	....	0.74	0.16
FHA-General and Special Risk Insurance	299	27	22	8.42	0.66	0.41
Interior:						
Indian Guaranteed Loans	6	2	....	60.00	33.33	....
International Assistance Programs:						
Overseas Private Investment Corporation	22	13	20	18.97	12.15	11.76
Small Business Administration:						
Business loans	546	279	279	13.75	6.88	6.66
Total, writeoffs of loans receivable	1,969	1,576	1,640	6.30	4.86	4.83

[1] Average of loans outstanding for the year.

Table 7–7. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS [1]

(In millions of dollars)

Agency and Program	2007 Actual	2008 Actual	2009 Estimate
DIRECT LOAN OBLIGATIONS			
Agriculture:			
Agricultural Credit Insurance Fund Direct Loan Financing Account	910	899	944
Commerce:			
Fisheries Finance Direct Loan Financing Account	48	90	8
Education:			
Historically Black College and University Capital Financing Direct Loan Financing Account	216	....	100
Loans for Short-Term Training Direct Loan Financing Account	....	....	46
Homeland Security:			
Disaster Assistance Direct Loan Financing Account	25	25	25
Housing and Urban Development:			
FHA-General and Special Risk Direct Loan Financing Account	50	50	50
FHA-Mutual Mortgage Insurance Direct Loan Financing Account	50	50	50
State:			
Repatriation Loans Financing Account	1	1	1
Transportation:			
Railroad Rehabilitation and Improvement Direct Loan Financing Account	....	....	600
Treasury:			
Community Development Financial Institutions Fund Direct Loan Financing Account	8	16	6
Veterans Affairs:			
Vocational Rehabilitation Direct Loan Financing Account	2	3	3
Small Business Administration:			
Business Direct Loan Financing Account	19	20	25
Total, limitations on direct loan obligations	1,329	1,154	1,858
LOAN GUARANTEE COMMITMENTS			
Agriculture:			
Agricultural Credit Insurance Fund Guaranteed Loan Financing Account	2,153	2,526	2,497
Education:			
Loans for Short-Term Training Guaranteed Loan Financing Account	....	....	316
Energy:			
Title 17 Innovative Technology Guaranteed Loan Financing Account	4,000	....	38,500
Housing and Urban Development:			
Indian Housing Loan Guarantee Fund Financing Account	251	367	350
Title VI Indian Federal Guarantees Financing Account	18	12	17
Native Hawaiian Housing Loan Guarantee Fund Financing Account	36	41	....
Community Development Loan Guarantees Financing Account	131	200	....
FHA-General and Special Risk Guaranteed Loan Financing Account	45,000	45,000	35,000
FHA-Mutual Mortgage Insurance Guaranteed Loan Financing Account	185,000	185,000	185,000
Interior:			
Indian Guaranteed Loan Financing Account	87	86	85
Transportation:			
Minority Business Resource Center Guaranteed Loan Financing Account	18	18	18
RRIF Guaranteed Loan Financing Account	....	....	100
International Assistance Programs:			
Development Credit Authority Guaranteed Loan Financing Account	700	700	700
Small Business Administration:			
Business Guaranteed Loan Financing Account	20,506	28,000	28,000
Total, limitations on loan guarantee commitments	257,900	261,950	290,583
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS			
Housing and Urban Development:			
Guarantees of Mortgage-backed Securities Financing Account	200,000	200,000	200,000
Small Business Administration:			
Secondary Market Guarantees	12,000	12,000	12,000
Total, limitations on secondary guaranteed loan commitments	212,000	212,000	212,000

[1] Data represent loan level limitations enacted or proposed to be enacted in appropriation acts. For information on actual and estimated loan levels supportable by new subsidy budget authority requested, see Tables 7–3 and 7–4.

Table 7–8. FACE VALUE OF GOVERNMENT-SPONSORED LENDING [1]

(In billions of dollars)

	Outstanding	
	2006	2007
Government Sponsored Enterprises		
Fannie Mae [2]	2,528	N/A
Freddie Mac [3]	1,543	N/A
Federal Home Loan Banks	621	824
Farm Credit System	105	111
Total	**4,797**	**N/A**

N/A = Not available.
[1] Net of purchases of federally guaranteed loans.
[2] 2007 financial data for Fannie Mae are not presented here because Fannie Mae audited financial results for 2007 have not been released.
[3] 2007 financial data for Freddie Mac are not presented here because Freddie Mac audited financial results for 2007 have not been released.

Table 7–9. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs)[1]

(In millions of dollars)

Enterprise	2007
LENDING	
Federal National Mortgage Association:[2]	
Portfolio programs:	
Net change	N/A
Outstandings	N/A
Mortgage-backed securities:	
Net change	N/A
Outstandings	N/A
Federal Home Loan Mortgage Corporation:[3]	
Portfolio programs:	
Net change	N/A
Outstandings	N/A
Mortgage-backed securities:	
Net change	N/A
Outstandings	N/A
Farm Credit System:	
Agricultural credit bank:	
Net change	1,712
Outstandings	30,475
Farm credit banks:	
Net change	4,764
Outstandings	80,949
Federal Agricultural Mortgage Corporation:	
Net change	1,303
Outstandings	8,362
Federal Home Loan Banks:[4]	
Net change	173,108
Outstandings	916,963
Less guaranteed loans purchased by:	
Federal National Mortgage Association:[2]	
Net change	N/A
Outstandings	N/A
Other:	
Net change	N/A
Outstandings	N/A
BORROWING	
Federal National Mortgage Association:[2]	
Portfolio programs:	
Net change	N/A
Outstandings	N/A
Mortgage-backed securities:	
Net change	N/A
Outstandings	N/A
Federal Home Loan Mortgage Corporation:[3]	
Portfolio programs:	
Net change	N/A
Outstandings	N/A
Mortgage-backed securities:	
Net change	N/A
Outstandings	N/A
Farm Credit System:	
Agricultural credit bank:	
Net change	1,889
Outstandings	34,736
Farm credit banks:	
Net change	5,828
Outstandings	100,204
Federal Agricultural Mortgage Corporation:	
Net change	490
Outstandings	5,044
Federal Home Loan Banks:[4]	
Net change	192,621
Outstandings	1,136,660

Table 7–9. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]—Continued

(In millions of dollars)

Enterprise	2007
DEDUCTIONS [5]	
Less borrowing from other GSEs:	
Net change	N/A
Outstandings	N/A
Less purchase of Federal debt securities:	
Net change	N/A
Outstandings	N/A
Federal National Mortgage Association:	
Net change	N/A
Outstandings	N/A
Other:	
Net change	N/A
Outstandings	N/A

N/A = Not available.

[1] The estimates of borrowing and lending were developed by the GSEs based on certain assumptions that are subject to periodic review and revision and do not represent official GSE forecasts of future activity, nor are they reviewed by the President. The data for all years include programs of mortgage-backed securities. In cases where a GSE owns securities issued by the same GSE, including mortgage-backed securities, the borrowing and lending data for that GSE are adjusted to remove double-counting.

[2] Financial data for Fannie Mae are not presented here because audited financial results for 2007 have not been released.

[3] Financial data for Freddie Mac are not presented here because audited financial statements for 2007 have not been released.

[4] The net change in borrowings is derived from the difference in borrowings between 2007 and the Federal Home Loan Banks' audited financial statements of 2006.

[5] Totals and subtotals have not been calculated because a substantial portion of the total is unavailable as described above.

8. AID TO STATE AND LOCAL GOVERNMENTS

State and local governments have a vital constitutional responsibility to provide government services. They have the major role in providing domestic public services, such as public education, law enforcement, roads, water supply, and sewage treatment. The Federal Government contributes to that role by promoting a healthy economy. It also provides grants, loans, and tax subsidies to State and local governments.

Federal grants help State and local governments finance programs covering most areas of domestic public spending, including income support, infrastructure, education, and social services. Federal grant outlays were $443.8 billion in 2007 and are estimated to be $466.6 billion in 2008 and $476.1 billion in 2009. These amounts include the value of loan subsidies for loans to State and local governments.

Grant outlays to State and local governments for payments to individuals, such as Medicaid payments, are estimated to be 66 percent of total grants in 2009; grant outlays for physical capital investment, 16 percent; and grant outlays for all other purposes, largely education, training, and social services, 18 percent.

Some tax expenditures also constitute Federal aid to State and local governments. Tax expenditures stem from special exclusions, exemptions, deductions, credits, deferrals, or tax rates in the Federal tax laws.

The deductibility of State and local personal income and property taxes from gross income for Federal income tax purposes and the exclusion of interest on State and local bonds from Federal taxation comprise the two largest categories of tax expenditures benefiting State and local governments. In 2009, these provisions are estimated to be worth $85.0 billion. Chapter 19, "Tax Expenditures," of this volume provides a detailed discussion of the measurement and definition of tax expenditures and a complete list of the estimated costs of specific tax expenditures. Tax expenditures that especially aid State and local governments are displayed separately at the end of Tables 19–1 and 19–2.

This chapter also includes information on the performance of selected grant programs based on the Program Assessment Rating Tool. An Appendix to this chapter includes State-by-State estimates of major grant programs.

Table 8–1. FEDERAL GRANT OUTLAYS BY AGENCY

(In billions of dollars)

Agency	2007 Actual	Estimate	
		2008	2009
Department of Agriculture	26.2	28.6	28.6
Department of Commerce	0.4	0.8	0.8
Department of Education	40.2	41.6	40.6
Department of Energy	0.2	0.1	*
Department of Health and Human Services	256.1	268.7	279.4
Department of Homeland Security	8.8	8.2	7.6
Department of Housing and Urban Development	40.0	41.4	38.1
Department of the Interior	4.1	4.7	5.4
Department of Justice	4.0	3.9	3.9
Department of Labor	7.0	6.9	6.9
Department of Transportation	47.9	52.9	56.1
Department of the Treasury	0.5	0.6	0.6
Department of Veterans Affairs	0.6	0.7	0.7
Environmental Protection Agency	4.0	3.2	3.6
Other agencies	3.7	4.1	3.9
Total	443.8	466.6	476.1

* $50 million or less.

Table 8–1 shows the distribution of grants by agency. Grant outlays by the Department of Health and Human Services are estimated to be $279.4 billion in 2009, almost 60 percent of total grant outlays. Most of the remaining grant spending is in the Departments of Agriculture, Education, Housing and Urban Development, and Transportation, which account for another 34 percent of grant outlays.

HIGHLIGHTS OF THE FEDERAL AID PROGRAM

Several proposals in the 2009 Budget affect Federal aid to State and local governments and the important relationships between the levels of government. In addition to the proposals relating to specific grant programs discussed below, the Administration intends to work with State and local governments to make the Federal system more efficient and effective and to improve the design, administration, and financial management of Federal grant programs through reducing improper payments and assessing performance of grants with the Program Assessment Rating Tool (PART), as discussed in a later section of this chapter.

Highlights of proposals affecting grants to State and local governments are presented below. For additional information on these proposals, see discussions in the main *Budget* volume.

Homeland Security

The 2009 Budget provides $2.2 billion in support, primarily in the form of grants to the Federal Government's State and local partners in homeland security and continues to emphasize programs which distribute grant awards on the basis of risk. In addition, the Budget introduces a new competitive grant program designed to address national vulnerabilities; this program supports REAL ID implementation and infrastructure protection projects in 2009.

The Budget also strengthens border security and interior enforcement by partnering with State and local law enforcement to expand the 287(g) program. This program improves coordination and provides assistance and training in immigration law for State and local law enforcement officials.

Natural Resources and Environment

Grant outlays for natural resources and environment programs are estimated to be $5.9 billion in 2009.

The 2009 Budget promotes the efficient use of water by partnering with State and local agencies to fund Water Conservation and Water Supply Studies through a competitive grant process. These studies will conserve water by improving water-use efficiency, increase water availability by assessing the impact of increased water demand and changing demographics on water supply, and prevent the decline of species by proactively addressing adverse environmental impacts on habitats.

The Budget also helps States and communities finance wastewater and drinking water infrastructure needs. The Budget:

- Adds 50 partners to the Water Lab Alliance network while continuing to provide training and technical assistance to improve the capabilities and capacity of the water sector.
- Provides $555 million to meet the Administration's commitment to provide $6.8 billion total between 2004–2011 for the Clean Water State Revolving Fund (SRF). Over the long term this will result in the Clean Water SRF providing an annual average of $3.4 billion in loans for wastewater infrastructure.
- Provides $842 million for the Drinking Water SRF to continue the President's commitment to capitalize the program until 2018. Over the long term this will result in the Drinking Water SRF providing an annual average of $1.2 billion in loans for drinking water infrastructure.
- Removes the State volume cap on private activity bonds (PABs) issued for public purpose drinking water and wastewater facilities if the entity using the PABs implements full-cost pricing within five years.

Community and Regional Development

Grant outlays for community and regional development programs are estimated to be $17.1 billion in 2009.

The 2009 Budget provides $2.8 billion in budget authority for the Community Development Block Grant program. This program needs reform and has been reduced from $3.9 billion in regular funding in 2008 because it is not well-targeted to the neediest communities and its results have not been adequately demonstrated.

Education

Grant outlays for elementary, secondary, and career and technical education are estimated to be $37.3 billion in 2009.

The 2009 Budget continues to support reauthorization of the *No Child Left Behind Act* (NCLB), building on the Administration's 2007 blueprint for reauthorizing and strengthening the law. The Budget provides $14.3 billion for Title I, a 63 percent increase since 2001; $1.0 billion for effective, research-based literacy instruction through Reading First; and $491 million for School Improvement Grants. With these grants, along with over $570 million reserved from Title I, States can help turn around low-performing schools. Additionally, the Budget supports expanded school choice for students at risk of being left behind including $236 million in Federal grants to charter schools (a $25 million increase), $300 million in Pell Grants for Kids to enable low-income students enrolled in low-performing schools to attend a private or out of district school, and $800 million available in new scholarships for low-income students to participate in afterschool programs of their choice. The Budget also provides extra assistance for students most at risk of being left behind, including migrant students, students in state-run institutions, and limited English proficient students.

The Budget also ensures the Nation's future competitiveness by supporting the education components of the President's American Competitiveness Initiative including providing $70 million to train teachers to teach Advanced Placement/International Baccalaureate courses and expand low-income students' access to them, $95 million for Math Now to improve instruction in mathematics, and $10 million for an Adjunct Teacher Corps to bring math and science professionals into high-need schools as teachers.

Transportation

Federal grants support State and local highway, transit, and airport construction programs. For 2009, grant outlays are estimated to be $56.1 billion for transportation programs.

Specifically, the Budget provides $39.4 billion in obligation limitation for the Federal Aid Highway program to support authorized highway programs through 2009, the end of the current authorization law. This amount will contribute to satisfying the President's 2005 agreement to provide $286.4 billion for surface transportation programs through the authorization period. The $10.1 billion contained in the Budget for transit assistance is also included in this total. In addition, the Budget requests $2.75 billion in budget authority for capital grants to States through the Federal Aviation Administration's Airport Improvement Program.

The 2009 Budget also provides $100 million for State matching grants for intercity passenger rail capital projects to empower States to address their transportation goals and priorities. It further includes $34 million for grants from the Pipeline and Hazardous Materials Safety Administration to State pipeline agencies.

Training and Employment

Grant outlays for training and employment are estimated to be $4.2 billion in 2009.

The 2009 Budget reforms the Department of Labor's job training grant programs to increase significantly the number of workers trained while saving taxpayer dollars. The Budget consolidates several similar grant programs, eliminates unnecessary administrative expenditures, and proposes a State match to leverage more State resources for workforce investment. The Budget also creates Career Advancement Accounts, worker-directed accounts that help workers develop their skills and compete for 21st Century jobs.

Social Services

Grant outlays for social service programs are estimated to be $14.7 billion in 2009.

The 2009 Budget strengthens programs for children by providing $7.0 billion in budget authority for Head Start to provide comprehensive, high-quality educational, health, nutritional, and social services to approximately 895,000 disadvantaged children and families and $20 million in budget authority for adoption incentives to build on the substantial increases in the number of adoptions since the mid-nineties.

Health

Grant outlays for health related programs are estimated to be $232.3 billion in 2009.

In 2009, the Department of Health and Human Service's Federal Medicaid outlays are estimated to be $215.7 billion. Medicaid is an open-ended means-tested entitlement program that is financed jointly by the Federal government and States. Medicaid provides health coverage and services to low-income children, pregnant women, elderly persons, and disabled individuals. The 2009 Budget enhances and reforms Medicaid by extending coverage for welfare recipients transitioning to work and continuing Medicare Part B premium assistance for qualified low-income seniors through September 30, 2009. Additionally, the Budget enhances States' ability to implement premium assistance programs under Medicaid. Lastly, the Budget proposes reforms to improve program integrity, increase State flexibility, and promote cost-effective management of Medicaid dollars.

The State Children's Health Insurance Program (SCHIP) was established in 1997 to provide health care coverage for low-income, uninsured children who do not qualify for Medicaid. The Budget proposes to reauthorize SCHIP through 2013 and increase funding above current levels by $19.7 billion over the same period to meet anticipated State needs in covering low-income, uninsured children. This proposal includes Federal outreach grants of $50 million in 2009 and $100 million in each of the following four years to reach eligible, uninsured children.

The Access to Recovery program has provided substance abuse treatment and recovery support services to more than 199,000 people since 2004. The 2009 Budget supports faith-based community programs by providing $98 million to enhance this program. Additionally, the Budget proposes $204 million to prevent teenage pregnancy, pre-marital sexual activity, and the incidence of sexually transmitted disease through abstinence-only education.

The 2009 Budget will expand care for vulnerable populations by strengthening access to drug treatment and prevention activities. The Budget provides $40 million for drug court services and $56 million to integrate screening, brief intervention and referral to treatment of drug abuse in emergency departments and other health care settings.

Income Security

Grant outlays for income security programs are estimated to be $94.9 billion in 2009.

The 2009 Budget reauthorizes the Food Stamp Program and increases funding for the Special Supplemental Nutrition Program for Women, Infants and Children (WIC). Since 2001, the Department of Agriculture has provided food and nutrition benefits to an additional 9.1 million people participating in the Food Stamp program, and approximately one million women, infants and children participating in WIC.

The Budget provides $6.1 billion in budget authority for WIC services, reaching an estimated 8.6 million beneficiaries in 2009. In keeping with the Administration's promotion of childhood wellness and fitness, the Department is issuing updated WIC food packages that reduce maximum allowances of certain foods and promote the intake of fresh fruits and vegetables.

The 2009 Budget expands affordable housing and minority homeownership by providing $2 billion for the HOME Investment Partnerships program (HOME), including $50 million for the American Dream Downpayment Initiative, which provides flexible housing assistance and increases affordable housing and minority homeownership. Since the inception of the HOME program sixteen years ago, almost 812,000 units of affordable housing have been created. The Budget also:

- Funds Housing Choice Vouchers for over two million extremely low- to low-income families, while removing the cap on the maximum number of housing units Public Housing Authorities can assist.
- Supports Public Housing Operating Fund by providing $4.3 billion, a 2½ percent increase over last year and the highest proposed funding level in history. This funding will provide the necessary operating expenses for 1.2 million public housing units.
- Expands Homeless Assistance Grants by providing over $1.6 billion in budget authority for funding at least 160,000 beds for homeless individuals. Aided by this Administration initiative, the Department of Housing and Urban Development documented an unprecedented 11.5 percent decline in homelessness from 2005 to 2006.

Administration of Justice

Grant outlays for administration of justice programs are estimated to be $4.2 billion in 2009.

The 2009 Budget supports State and local law enforcement by reforming the Byrne Public Safety and Protection Program to provide money for State and local criminal justice needs, including Project Safe Neighborhoods, the DNA Initiative, Prisoner Re-entry, and other priorities, to be funded through competitive grants. The Budget also funds the Violent Crime Reduction Partnership Initiative which is targeted to support multi-jurisdictional task forces to help communities that have experienced an increase in violent crime.

Overall, more than 70 State and local law enforcement assistance programs representing over $2 billion in spending are proposed for consolidation into four flexible and competitive grants, which will eliminate earmarks and formulas, and improve the ability of States, localities, and Tribes to respond to increases in violent crime by better targeting funds to key criminal justice priorities. These four competitive grant programs include the Violent Crime Reduction Partnership, the Byrne Public Safety and Protection Program, the Violence Against Women Program, and the Child Safety and Juvenile Justice Program.

PERFORMANCE OF GRANTS TO STATE AND LOCAL GOVERNMENTS

The Administration is committed to measuring and improving the performance of Government programs. The Congress mandated in the Government Performance and Results Act of 1993 that performance plans be developed and that the agencies report annual progress against these plans.

In addition, this Administration began in the 2004 Budget to assess every Federal program over a five-year period using the Program Assessment Rating Tool, or PART. With this budget, the sixth year of using the PART, the Administration has evaluated about 98 percent of the Budget.

The PART assesses each program on four components (purpose, planning, management, and results/accountability) and gives a score for each of the components. The scores for each component are then weighted—with results/accountability carrying the greatest weight—and the program is given an overall score. A program is rated effective if it receives an overall score of 85 percent or more, moderately effective if the score is 70 to 84 percent, adequate if the score is 50 to 69 percent, and inadequate if the score is 49 percent or lower. The program is given a rating "Results Not Demonstrated" if the program does not have good performance measures or lacks data for existing measures. Chapter 2 of this volume discusses the PART in more detail.

As shown in Table 8–2, 280 of the programs that have been assessed are primarily grants to State and local governments. Of these 280, 97 programs, or 35 percent of all grant programs assessed, received a rating of "Results Not Demonstrated". This is higher than for all programs, in which 19 percent were given this rating. Factors that hinder the ability of some grant programs to demonstrate results include the wide breadth of purpose of some grants, lack of agreement among grantees and Federal parties on the purpose and performance measures, and therefore lack of focused planning to achieve common goals.

Table 8–2 also shows that the average rating for the 280 grant programs was "adequate."

- 22 were rated effective;
- 66 were rated moderately effective;
- 79 were rated adequate; and
- 16 were rated ineffective.
- 97 were rated "results not demonstrated";

If the 97 programs rated "Results Not Demonstrated" are excluded, the average rating was "adequate"; the same as the rating for all 280 grants.

The ratings of the largest five of these 280 grant programs are summarized here, with funding estimates from the 2007 spring update of PART programs. More complete summaries of these and other programs can be found at *www.ExpectMore.gov*.

- *Department of Health and Human Services: Medicaid ($190.6 billion in 2007). Rating: Adequate.* Medicaid is a means-tested, Federal-State funded entitlement program that provides medical assistance, including acute and long-term care, to families with dependent children as well as aged, blind, or disabled individuals. The Centers for Medicare and Medicaid Services (CMS) provides Federal oversight of this program. In 2007, the number of Medicaid enrollees was 49.1 million. Nearly one in every four children in America relies on Medicaid for health coverage. Two-thirds of all Medicaid enrollees are in low-wage working families. Medicaid also pays for six out of every ten beds in nursing homes. Center for Medicare and Medicaid Services (CMS) created new performance measures that assess health quality and focus on improving program management. More work needs to be done; CMS is working on a national strategy to improve the quality of care across State Medicaid programs and is developing a national payment error rate for Medicaid. The Federal government matches all allowable State dollars spent on Medicaid, regardless of the amount or quality of service. This funding structure leaves Medicaid vulnerable, and has enabled States to shift costs to Medicaid that may not be appropriate.
- *Department of Transportation: Highway Infrastructure ($38.3 billion in 2007). Rating: Adequate.* The purpose of the FHWA's Highway Infrastructure Program is to provide financial grants and technical assistance to States to construct, maintain, and improve the performance of the Nation's

Table 8–2. SUMMARY OF PART RATINGS AND SCORES FOR GRANTS TO STATE AND LOCAL GOVERNMENTS

Component	Average Scores: All grant programs (280 programs)	Average Scores: Programs excluding grants rated "results not demonstrated" (183 programs)
Purpose	85%	87%
Planning	65%	79%
Management	78%	84%
Results/Accountability	36%	49%
Average rating [1]	Adequate	Adequate

Rating [1]	Number of grant programs
Effective	22
Moderately effective	66
Adequate	79
Ineffective	16
Results not demonstrated	97
Total number of grant programs rated	280

[1] Weighted as follows: Purpose (20%), Planning (10%), Management (20%), Results/Accountability (50%). The rating of effective indicates a score of 85 percent or more; moderately effective, 70–85 percent; adequate, 50–70 percent; and ineffective, 49 percent or less.

highway system in accordance with federal policy goals. The majority of funds are allocated to States, which ultimately use the funds directly for highway maintenance and construction. However, projects are chosen by the States themselves and are not based on need or the value-added to the Nation's highway system. In 2004, 42 percent of Federal funds ($13 billion) was spent on projects off of the National Highway System which were not determined to have national significance. The program's long-term trends do show improvement for all strategic outcome measures. The program, with the State departments of transportation, has recently implemented a financial integrity review and evaluation procedure as a remedy to longstanding issues. As a result of the new initiative, the Agency eliminated a grants management material weakness in the Highway Trust Fund 2006 financial statements and is working next to eliminate additional internal control weaknesses.

- *Department of Health and Human Services: Temporary Assistance for Needy Families (TANF) ($17.1 billion in 2007). Rating: Moderately Effective.* This program provides time-limited cash assistance to needy families with children while working toward achieving the goals of ending dependence by promoting work and marriage, preventing out-of-wedlock births, and encouraging the formation and maintenance of two-parent families. The program has produced modest, but statistically significant increases in employment and earnings among welfare recipients as well as reduced caseloads, poverty, and welfare dependency. It is inconclusive whether the program has promoted marriage or reduced the incidence of out-of-wedlock births, but the program has a new performance measure to increase the number of children living in married couple households.
- *Department of Housing and Urban Development (HUD): Housing Vouchers ($15.9 billion in 2007). Rating: Moderately Effective*. The Housing Choice Voucher Program assists two million extremely low to low-income households across the country to afford housing. The program purpose is to help these families afford decent, safe, and sanitary housing. Tenants, who may otherwise pay over 50 percent of their income to rent an apartment in the private market, pay 30 percent of their income under this program. A variety of studies show housing vouchers to be a cost-effective means of delivering affordable housing for very low-income families. Because these housing subsidies are portable, the program allows families access to often better housing, in better neighborhoods. As a part of the 2009 Budget, the Administration proposes reforms that include a rental funding structure that simplifies the program and decreases the likelihood of improper payments, and allocates program funding on a budget, rather than on a unit basis. The Administration will also continue to work with Congress to streamline the program, giving more flexibility to Public Housing Agencies to administer the program to serve more families and better address local needs and market conditions.
- *Department of Education: Title I Grants to Local Educational Agencies ($12.8 billion for 2007). Rat-*

ing: Moderately Effective. This program provides supplemental education funding, especially in high-poverty areas, for local activities that help improve the performance of low-achieving students or, in the case of school-wide programs, to help all students in high-poverty schools to meet challenging State academic standards. The program has developed meaningful long-term performance measures, established baselines, and set annual targets required to meet ambitious statutory academic proficiency goals. First-year data show a rate of progress consistent with meeting annual performance targets. The Department of Education has expanded and strengthened its monitoring of State and local program implementation, including compliance with statutory requirements and fiscal management practices.

Block Grants. One of the most common tools used by the Federal Government is the block grant, particularly in the social services area where States and localities are the service providers. Block grants are embraced for their flexibility to meet local needs, but are also criticized because accountability for results can be difficult when funds are allocated based on formulas and population counts rather than achievements or needs. In addition, block grants pose performance measurement challenges precisely because they can be used for a wide range of activities. The obstacles to measuring and achieving results through block grants are reflected in PART scores: they receive the lowest average score of the seven PART types, 5 percent of block grant programs assessed to date were rated "ineffective", and 30 percent were rated "results not demonstrated."

Nonetheless, the PART shows that some Federal block grant programs are achieving results better than others, effectively combining the flexibility that localities need with the results that taxpayers deserve. The Administration continues its analysis and evaluation of block grant programs and will apply the lessons learned from the effective programs to those performing inadequately. Results of the evaluation will identify the methods used to manage highly rated block grant programs and adapt and implement those practices in large, low-scoring programs. Each of the programs targeted for improvement will develop an action plan and implementation timeline that will be tracked quarterly. The targeted programs will be re-analyzed through the PART over the next several years to assess whether implementing the block grant "best practices" results in improved performance.

HISTORICAL PERSPECTIVES

In recent decades, Federal aid to State and local governments has become a major factor in the financing of certain government functions. The rudiments of the present system date back to the Civil War. The Morrill Act, passed in 1862, established the land grant colleges and instituted certain federally-required standards for States that received the grants, as is characteristic of the present grant programs. Federal aid was later initiated for agriculture, highways, vocational education and rehabilitation, forestry, and public health. In the depression years, Federal aid was extended to meet income security and other social welfare needs. However, Federal grants did not become a significant factor in Federal Government expenditures until after World War II.

Table 8–3 displays trends in Federal grants to State and local governments since 1960. Section A shows Federal grants by function. Functions with a substantial amount of grants are shown separately. Grants for the national defense, energy, social security, and veterans benefits and services functions are combined in the "other functions" line in the table.

Table 8–3. TRENDS IN FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS

(Outlays; in billions of dollars)

	Actual											Estimate	
	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2007	2008	2009
A. Distribution of grants by function:													
Natural resources and environment	0.1	0.2	0.4	2.4	5.4	4.1	3.7	4.0	4.6	5.9	6.1	5.6	5.9
Agriculture	0.2	0.5	0.6	0.4	0.6	2.4	1.3	0.8	0.7	0.9	0.8	0.8	0.9
Transportation	3.0	4.1	4.6	5.9	13.0	17.0	19.2	25.8	32.2	43.4	47.9	52.9	56.1
Community and regional development	0.1	0.6	1.8	2.8	6.5	5.2	5.0	7.2	8.7	20.2	20.7	21.3	17.1
Education, training, employment, and social services	0.5	1.1	6.4	12.1	21.9	17.1	21.8	30.9	36.7	57.2	58.1	59.6	57.2
Health	0.2	0.6	3.8	8.8	15.8	24.5	43.9	93.6	124.8	197.8	208.3	220.4	232.3
Income security	2.6	3.5	5.8	9.4	18.5	27.9	36.8	58.4	68.7	90.9	91.0	94.2	94.9
Administration of Justice	....	....	0.0	0.7	0.5	0.1	0.6	1.2	5.3	4.8	4.6	4.3	4.2
General government	0.2	0.2	0.5	7.1	8.6	6.8	2.3	2.3	2.1	4.4	3.6	4.1	4.2
Other	0.0	0.1	0.1	0.2	0.7	0.8	0.8	0.8	2.1	2.6	2.8	3.3	3.3
Total	7.0	10.9	24.1	49.8	91.4	105.9	135.3	225.0	285.9	428.0	443.8	466.6	476.1
B. Distribution of grants by BEA category:													
Discretionary	N/A	2.9	10.2	21.0	53.3	55.5	63.3	94.0	116.7	181.7	184.8	189.9	185.8
Mandatory	N/A	8.0	13.9	28.8	38.1	50.4	72.0	131.0	169.2	246.3	259.0	276.6	290.3
Total	7.0	10.9	24.1	49.8	91.4	105.9	135.3	225.0	285.9	428.0	443.8	466.6	476.1
C. Composition:													
Current dollars:													
Payments for individuals [1]	2.5	3.7	8.7	16.8	32.6	50.1	77.3	144.4	182.6	273.9	284.4	300.5	313.5
Physical capital [1]	3.3	5.0	7.1	10.9	22.6	24.9	27.2	39.6	48.7	60.8	70.8	76.1	75.5
Other grants	1.2	2.2	8.3	22.2	36.2	30.9	30.9	41.0	54.6	93.3	88.7	90.0	87.1
Total	7.0	10.9	24.1	49.8	91.4	105.9	135.3	225.0	285.9	428.0	443.8	466.6	476.1
Percentage of total grants:													
Payments for individuals [1]	35.3%	34.1%	36.2%	33.6%	35.7%	47.3%	57.1%	64.2%	63.9%	64.0%	64.1%	64.4%	65.9%
Physical capital [1]	47.3%	45.7%	29.3%	21.9%	24.7%	23.5%	20.1%	17.6%	17.0%	14.2%	15.9%	16.3%	15.9%
Other grants	17.4%	20.2%	34.5%	44.5%	39.6%	29.2%	22.8%	18.2%	19.1%	21.8%	20.0%	19.3%	18.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Constant (FY 2000) dollars:													
Payments for individuals [1]	12.0	16.9	33.5	48.0	63.9	75.0	96.6	157.6	182.6	245.8	242.1	247.8	253.3
Physical capital [1]	17.0	24.2	27.2	26.0	38.9	34.2	32.6	43.3	48.7	52.0	54.2	56.0	53.6
Other grants	10.0	15.6	44.6	83.8	89.9	53.9	42.9	47.0	54.6	75.9	65.3	63.6	59.4
Total	39.0	56.7	105.3	157.7	192.6	163.1	172.1	247.9	285.9	373.6	361.6	367.4	366.2
D. Total grants as a percent of:													
Federal outlays:													
Total	7.6%	9.2%	12.3%	15.0%	15.5%	11.2%	10.8%	14.8%	16.0%	17.3%	16.3%	15.9%	15.3%
Domestic programs [2]	18.0%	18.3%	23.2%	21.7%	22.2%	18.2%	17.1%	21.6%	22.0%	23.5%	22.3%	21.9%	21.4%
State and local expenditures	14.8%	15.5%	20.1%	24.0%	27.4%	22.0%	18.9%	22.8%	22.2%	24.6%	22.6%	N/A	N/A
Gross domestic product	1.4%	1.6%	2.4%	3.2%	3.4%	2.6%	2.4%	3.1%	2.9%	3.5%	3.2%	3.3%	3.2%
E. As a share of total State and local gross investments:													
Federal capital grants	24.6%	25.5%	25.4%	26.0%	35.4%	30.2%	21.9%	26.0%	21.9%	21.5%	20.9%	N/A	N/A
State and local own-source financing	75.4%	74.5%	74.6%	74.0%	64.6%	69.8%	78.1%	74.0%	78.1%	78.5%	79.1%	N/A	N/A
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	N/A	N/A

N/A: Not available.
*50 million or less.
[1] Grants that are both payments for individuals and capital investment are shown under capital investment.
[2] Excludes national defense, international affairs, net interest, and undistributed offsetting receipts

Federal grants for transportation increased to $3.0 billion, or 43 percent of all Federal grants, in 1960 after initiation of aid to States to build the Interstate Highway System in the late 1950s.

By 1970 there had been significant increases in the relative amounts for education, training, employment, social services, and health (largely Medicaid).

In the early and mid-1970s, major new grants were created for natural resources and environment (construction of sewage treatment plants), community and regional development (community development block grants), and general government (general revenue sharing).

Since the late 1970s changes in the relative amounts among functions reflect steady growth of grants for health (Medicaid) and income security. The functions with the largest amount of grants are health; income security; education, training, employment, and social services; and transportation, with combined estimated grant outlays of $405.3 billion, or more than 90 percent of total grant outlays in 2007.

The increase in total outlays for grants overall since 1990 has been driven by increases in grants for health, which have increased more than four-fold from $43.9 billion in 1990 to $208.3 billion in 2007. The income security; education, training, employment, and social services; and transportation functions also increased substantially, but at a slower rate than the increase for health.

Section B of the Table shows the distribution of grants divided into mandatory and discretionary spending.

Funding for grant programs classified as mandatory is determined in authorizing legislation. Funding levels for mandatory programs can only be changed by changing eligibility criteria or benefit formulas established in law and are usually not limited by the annual appropriations process. Outlays for mandatory grant programs were $259.0 billion in 2007. The three largest mandatory grant programs are Medicaid, with outlays of $190.6 billion in 2007, Temporary Assistance for Needy Families, $16.9 billion, and child nutrition programs, $12.9 billion.

The funding level for discretionary grant programs is determined annually through appropriations acts. Outlays for discretionary grant programs were $184.8 billion in 2007. Table 8–4 at the end of this chapter identifies discretionary and mandatory grant programs separately. For more information on these categories, see Chapter 26, "The Budget System and Concepts" in this volume.

Section C of Table 8–3 shows the composition of grants divided into three major categories: payments for individuals, grants for physical capital, and other grants. Grant outlays for payments for individuals, which are mainly entitlement programs in which the Federal Government and the States share the costs, have grown significantly as a percent of total grants. They increased from about a third of the total in 1960 to slightly less than two-thirds in the mid-1990s, and have remained about that proportion since then.

These grants are distributed through State or local governments to provide cash or in-kind benefits that constitute income transfers to individuals or families. The major grant in this category is Medicaid. Temporary Assistance for Needy Families, child nutrition programs, and housing assistance are also large grants in this category.

Grants for physical capital assist States and localities with construction and other physical capital activities. The major capital grants are for highways, but there are also grants for airports, mass transit, sewage treatment plant construction, community development, and other facilities. Grants for physical capital were almost half of total grants in 1960, shortly after grants began for construction of the Interstate Highway System. The relative share of these outlays has declined, as payments for individuals have grown. In 2007, grants for physical capital were $70.8 billion, 16 percent of total grants.

The other grants are primarily for education, training, employment, and social services. These grants were 20 percent of total grants in 2007.

Section D of this table shows grants as a percentage of Federal outlays, State and local expenditures, and gross domestic product. Grants have increased as a percentage of total Federal outlays from 11 percent in 1990 to 16 percent in 2007. Grants as a percentage of domestic programs were 22 percent in 2007. As a percentage of total State and local expenditures, grants have increased from 19 percent in 1990 to 23 percent in 2007.

Section E shows the relative contribution of physical capital grants in assisting States and localities with gross investment. Federal capital grants are estimated to be 21 percent of State and local gross investment in 2007.

OTHER INFORMATION ON FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Additional information regarding aid to State and local governments can be found elsewhere in this budget and in other documents.

Major public physical capital investment programs providing Federal grants to State and local governments are identified in Chapter 6, "Federal Investment."

Data for summary and detailed grants to State and local governments can be found in many sections of a separate budget volume entitled *Historical Tables*. Section 12 of that document is devoted exclusively to grants to State and local governments. Additional information on grants can be found in Section 6 (Composition of Federal Government Outlays); Section 9 (Federal Government Outlays for Investment: Major Physical Capital, Research and Development, and Education and Training); Section 11 (Federal Government Payments for Individuals); and Section 15 (Total (Federal and State and Local) Government Finances).

Current and updated grant receipt information by State and local governments can be found on *USAspending.gov*. This public website also contains contract and loan information and is updated monthly.

In addition to these sources, a number of other sources of information are available that use slightly different concepts of grants, provide State-by-State information, provide information on how to apply for Federal aid, or display information about audits.

The Bureau of the Census in the Department of Commerce provides data on public finances, including Federal aid to State and local governments. The Bureau's major reports and databases on grant-making include:

- *Federal Aid to States*, a report on Federal spending by State for grants for the most recently completed fiscal year.

- *The Consolidated Federal Funds Report* is an annual document that shows the distribution of Federal spending by State and county areas and by local governmental jurisdictions.
- The Federal Assistance Awards Data System (FAADS) provides computerized information about current grant funding. Data on all direct assistance awards are provided quarterly to the States and to the Congress.
- The Federal Audit Clearinghouse maintains an on-line database *(harvester.census.gov/sac)* that provides access to summary information about audits conducted under OMB Circular A–133, "Audits to States, Local Governments, and Non-Profit Organizations." Information is available for each audited entity, including the amount of Federal money expended by program and whether there were audit findings.

The Bureau of Economic Analysis, also in the Department of Commerce, publishes the monthly *Survey of Current Business*, which provides data on the national income and product accounts (NIPA), a broad statistical concept encompassing the entire economy. These accounts include data on Federal grants to State and local governments. Data using the NIPA concepts appear in this volume in Chapter 14, "National Income and Product Accounts."

The *Catalog of Federal Domestic Assistance* is a primary reference source for communities wishing to apply for grants and other domestic assistance. The *Catalog* is prepared by the General Services Administration and contains a detailed listing of grant and other assistance programs; discussions of eligibility criteria, application procedures, and estimated obligations; and related information. The *Catalog* is available on the Internet at *www.cfda.gov*.

DETAILED FEDERAL AID TABLE

Table 8–4, "Federal Grants to State and Local Governments-Budget Authority and Outlays," provides detailed budget authority and outlay data for grants, including proposed legislation. This table displays discretionary and mandatory grant programs separately.

Table 8–4. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS

(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2007 Actual	2008 Estimate	2009 Estimate	2007 Actual	2008 Estimate	2009 Estimate
ENERGY						
Discretionary:						
Department of Energy:						
Energy Programs:						
Energy Supply and Conservation	213	....	....	215	....	....
Energy Efficiency and Renewable Energy	....	227	59	....	102	27
Total, discretionary	**213**	**227**	**59**	**215**	**102**	**27**
Mandatory:						
Tennessee Valley Authority	452	448	463	452	448	463
Total, energy	**665**	**675**	**522**	**667**	**550**	**490**
NATURAL RESOURCES AND ENVIRONMENT						
Discretionary:						
Department of Agriculture:						
Farm Service Agency:						
Grassroots Source Water Protection Program	4	4	....	4	4	....
Natural Resources Conservation Service:						
Watershed Rehabilitation Program	6	4	12	2	2	7
Resource Conservation and Development	....	....	....	1	1	....
Watershed and Flood Prevention Operations	12	16	....	148	78	31
Forest Service:						
State and Private Forestry	269	255	103	316	361	128
Management of National Forest Lands for Subsistence Uses	5	5	....	5	6	2
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Operations, Research, and Facilities	77	166	94	31	85	41
Pacific Coastal Salmon Recovery	67	67	35	79	74	67
Procurement, Acquisition and Construction	42	39	16	17	16	6
Department of the Interior:						
Bureau of Land Management:						
Miscellaneous Permanent Payment Accounts	....	....	....	....	121	....
Office of Surface Mining Reclamation and Enforcement:						
Regulation and Technology	59	64	64	54	61	63
Abandoned Mine Reclamation Fund	165	30	11	178	167	141
United States Geological Survey:						
Surveys, Investigations, and Research	5	6	....	5	6	....
United States Fish and Wildlife Service:						
State and Tribal Wildlife Grants	67	74	74	67	107	99
Cooperative Endangered Species Conservation Fund	81	74	75	82	110	98
Landowner Incentive Program	24	....	....	16	25	24
National Park Service:						
Urban Park and Recreation Fund	....	....	–1	5	4	2
National Recreation and Preservation	55	67	45	51	63	52
Land Acquisition and State Assistance	30	23	6	47	35	40
Historic Preservation Fund	65	70	66	73	82	107
Environmental Protection Agency:						
State and Tribal Assistance Grants	3,214	2,932	2,612	3,938	3,080	3,463
Hazardous Substance Superfund	33	25	40	25	25	26
Leaking Underground Storage Tank Trust Fund	56	89	54	53	80	64
Total, discretionary	**4,336**	**4,010**	**3,306**	**5,197**	**4,593**	**4,461**
Mandatory:						
Department of the Interior:						
Bureau of Land Management:						
Miscellaneous Permanent Payment Accounts	132	28	37	131	27	36
Minerals Management Service:						
National Petroleum Reserve, Alaska	13	16	6	13	16	6
National Forests Fund, Payment to States	15	8	7	15	8	8
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes	4	3	3	4	3	3
States Share from Certain Gulf of Mexico Leases	....	....	19	....	....	19
Coastal Impact Assistance	250	250	250	1	82	481

Table 8–4. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2007 Actual	2008 Estimate	2009 Estimate	2007 Actual	2008 Estimate	2009 Estimate
Office of Surface Mining Reclamation and Enforcement:						
Payments to States in Lieu of Coal Fee Receipts	....	....	22	....	....	9
Abandoned Mine Reclamation Fund	....	87	91	....	25	24
Bureau of Reclamation:						
Bureau of Reclamation Loan Program Account	5	19	....	11	19	....
United States Fish and Wildlife Service:						
Federal Aid in Wildlife Restoration	296	340	348	265	300	301
Cooperative Endangered Species Conservation Fund	46	49	42	46	49	51
Sport Fish Restoration	432	491	467	372	478	478
Department of the Treasury:						
Financial Management Service:						
Payment to Terrestrial Wildlife Habitat Restoration Trust Fund	5	5	5	5	5	5
Total, mandatory	**1,198**	**1,296**	**1,297**	**863**	**1,012**	**1,421**
Total, natural resources and environment	**5,534**	**5,306**	**4,603**	**6,060**	**5,605**	**5,882**
AGRICULTURE						
Discretionary:						
Department of Agriculture:						
Cooperative State Research, Education, and Extension Service:						
Extension Activities	455	458	436	430	475	511
Outreach for Socially Disadvantaged Farmers	6	7	7	6	7	7
Research and Education Activities	398	267	197	306	294	302
Integrated Activities	25	25	4	25	23	21
Agricultural Marketing Service:						
Payments to States and Possessions	8	12	1	9	11	9
Farm Service Agency:						
State Mediation Grants	4	4	4	4	4	4
Total, discretionary	**896**	**773**	**649**	**780**	**814**	**854**
Mandatory:						
Department of Agriculture:						
Farm Service Agency:						
Commodity Credit Corporation Fund	23	15	....	23	15	....
Total, agriculture	**919**	**788**	**649**	**803**	**829**	**854**
COMMERCE AND HOUSING CREDIT						
Mandatory:						
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Promote and Develop Fishery Products and Research Pertaining to American Fisheries	4	8	6	6	7	6
National Telecommunications and Information Administration:						
Digital Television Transition and Public Safety Fund	1,000	....	....	24	296	396
Federal Communications Commission:						
Universal Service Fund	1,418	1,689	1,711	1,418	1,689	1,711
Total, commerce and housing credit	**2,422**	**1,697**	**1,717**	**1,448**	**1,992**	**2,113**
TRANSPORTATION						
Discretionary:						
Department of Transportation:						
Federal Aviation Administration:						
Grants-in-aid for Airports (Airport and Airway Trust Fund)	....	....	....	3,874	2,970	4,090
Federal Highway Administration:						
Emergency Relief Program	871	195	....	841	1,112	979
State Infrastructure Banks	....	....	....	....	2	1
Appalachian Development Highway System	20	16	....	72	99	84
Federal-aid Highways	....	....	....	33,222	36,796	38,833
Miscellaneous Appropriations	....	10	....	157	90	69
Miscellaneous Highway Trust Funds	....	–1	....	158	167	133
Federal Motor Carrier Safety Administration:						
Motor Carrier Safety Grants	....	....	....	210	361	302

Table 8–4. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2007 Actual	2008 Estimate	2009 Estimate	2007 Actual	2008 Estimate	2009 Estimate
National Highway Traffic Safety Administration:						
Highway Traffic Safety Grants				402	619	661
Federal Railroad Administration:						
Intercity Passenger Rail Grant Program		30	100		2	10
Rail Line Relocation and Improvement Program		20			10	10
Alaska Railroad Rehabilitation				5	2	
Federal Transit Administration:						
Job Access and Reverse Commute Grants				69	62	42
Interstate Transfer Grants-transit				2	1	1
Washington Metropolitan Area Transit Authority				2		
Formula Grants	36			2,043	1,584	959
Capital Investment Grants	1,566	1,569	1,621	2,662	2,718	2,606
Discretionary Grants (Highway Trust Fund, Mass Transit Account)				12	24	24
Formula and Bus Grants				4,194	6,237	7,225
Pipeline and Hazardous Materials Safety Administration:						
Pipeline Safety	20	23	34	19	23	28
Total, discretionary	**2,513**	**1,862**	**1,755**	**47,944**	**52,879**	**56,057**
Mandatory:						
Department of Transportation:						
Federal Aviation Administration:						
Grants-in-aid for Airports (Airport and Airway Trust Fund)	3,671	–169	2,750			
Federal Highway Administration:						
Federal-aid Highways	36,360	38,447	28,503			
Miscellaneous Appropriations	1	1		1	1	
Federal Motor Carrier Safety Administration:						
Motor Carrier Safety Grants	294	289	307			
National Highway Traffic Safety Administration:						
Highway Traffic Safety Grants	572	570	602			
Federal Transit Administration:						
Formula and Bus Grants	8,240	7,739	8,361			
Total, mandatory	**49,138**	**46,877**	**40,523**	**1**	**1**	
Total, transportation	**51,651**	**48,739**	**42,278**	**47,945**	**52,880**	**56,057**
COMMUNITY AND REGIONAL DEVELOPMENT						
Discretionary:						
Department of Agriculture:						
Rural Development:						
Rural Community Advancement Program	728			760		
Rural Utilities Service:						
Distance Learning, Telemedicine, and Broadband Program	11	57	21	13	46	37
Rural Water and Waste Disposal Program Account		539	269		773	675
Rural Housing Service:						
Rural Community Facilities Program Account		81	20		106	72
Rural Business—Cooperative Service:						
Rural Business Program Account		97	27		88	76
Department of Commerce:						
Economic Development Assistance Programs	251	243	100	243	319	296
Department of Homeland Security:						
Federal Emergency Management Agency:						
State and Local Programs	2,655	3,465	1,900	2,385	1,601	2,410
Firefighter Assistance Grants	662	750	300	499	662	702
Mitigation Grants				32	62	
Disaster Relief	3,803	2,872	1,330	5,351	5,609	4,242
Department of Housing and Urban Development:						
Community Planning and Development:						
Community Development Fund	3,770	6,866	2,791	10,867	11,458	8,124
Urban Development Action Grants				1	3	
Community Development Loan Guarantees Program Account	3	5		1	5	6
Brownfields Redevelopment	6	10		11	26	27
Empowerment Zones/enterprise Communities/renewal Communities				25	27	18
Office of Lead Hazard Control and Healthy Homes:						
Lead Hazard Reduction	150	145	116	147	155	166

Table 8–4. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(in millions of dollars)

Function, Category, Agency and Program	Budget Authority 2007 Actual	Budget Authority 2008 Estimate	Budget Authority 2009 Estimate	Outlays 2007 Actual	Outlays 2008 Estimate	Outlays 2009 Estimate
Department of the Interior:						
Bureau of Indian Affairs and Bureau of Indian Education:						
Operation of Indian Programs	152	179	157	182	161	148
Indian Guaranteed Loan Program Account	20	16	8	20	16	7
Appalachian Regional Commission	57	65	57	67	73	59
Delta Regional Authority	12	12	6	8	12	6
Denali Commission	50	22	2	33	49	74
Total, discretionary	**12,330**	**15,424**	**7,104**	**20,645**	**21,251**	**17,145**
Mandatory:						
Department of Housing and Urban Development:						
Community Planning and Development:						
Community Development Loan Guarantees Program Account	8	4		8	4	
Total, community and regional development	**12,338**	**15,428**	**7,104**	**20,653**	**21,255**	**17,145**
EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES						
Discretionary:						
Department of Commerce:						
National Telecommunications and Information Administration:						
Public Telecommunications Facilities, Planning and Construction	20	17		21	31	23
Information Infrastructure Grants				7	3	2
Department of Education:						
Office of Elementary and Secondary Education:						
Indian Education	115	116	116	112	114	114
Impact Aid	1,224	1,236	1,236	1,156	1,377	1,281
Education Reform				1		
Education for the Disadvantaged	14,679	14,892	16,571	14,409	14,927	15,251
School Improvement Programs	5,110	5,158	4,502	5,299	5,219	5,099
Office of Innovation and Improvement:						
Innovation and Improvement	549	640	721	501	961	542
Office of Safe and Drug-Free Schools:						
Safe Schools and Citizenship Education	665	643	261	686	711	649
Office of English Language Acquisition:						
English Language Acquisition	629	658	686	683	743	602
Office of Special Education and Rehabilitative Services:						
Special Education	11,600	10,348	11,351	11,585	11,495	11,725
Rehabilitation Services and Disability Research	127	125	–9	129	160	35
American Printing House for the Blind	18	22	22	18	22	22
Office of Vocational and Adult Education:						
Career, Technical and Adult Education	1,970	1,920	1,345	1,927	2,066	1,851
Office of Postsecondary Education:						
Higher Education	402	376	302	411	452	408
Office of Federal Student Aid:						
Student Financial Assistance	65	64		60	71	51
Institute of Education Sciences	25	48	100	11	24	32
Hurricane Education Recovery	30			415	359	
Department of Health and Human Services:						
Administration for Children and Families:						
Promoting Safe and Stable Families	82	82	82	82	82	82
Children and Families Services Programs	8,618	8,637	8,122	8,496	8,524	8,278
Administration on Aging:						
Aging Services Programs	1,365	1,393	1,362	1,339	1,372	1,371
Department of the Interior:						
Bureau of Indian Affairs and Bureau of Indian Education:						
Operation of Indian Programs	99	116	116	111	112	111
Department of Labor:						
Employment and Training Administration:						
Training and Employment Services	3,060	3,219	2,826	3,006	2,975	3,008
Community Service Employment for Older Americans	98	109	77	78	118	96
State Unemployment Insurance and Employment Service Operations	102	89	17	118	73	47
Foreign Labor Certification Administration			18			11
Unemployment Trust Fund	964	951	249	922	968	802
Corporation for National and Community Service:						
Domestic Volunteer Service Programs, Operating Expenses	106			139	78	7

Table 8–4. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2007 Actual	2008 Estimate	2009 Estimate	2007 Actual	2008 Estimate	2009 Estimate
National and Community Service Programs, Operating Expenses	265	.....	.....	224	158	89
VISTA Advance Payments Revolving Fund	4	.....	.....	1	3	.....
Operating Expenses	.....	360	345	.....	110	232
Corporation for Public Broadcasting	465	448	200	465	448	200
District of Columbia:						
District of Columbia General and Special Payments:						
Federal Payment for Resident Tuition Support	33	35	35	33	35	35
Federal Payment to Jump Start Public School Reform	.....	.....	20	.....	.....	20
Federal Payment for School Improvement	40	41	54	40	41	54
National Endowment for the Arts:						
National Endowment for the Arts: Grants and Administration	40	48	41	38	43	44
Institute of Museum and Library Services:						
Office of Museum and Library Services: Grants and Administration	234	250	254	246	287	248
Total, discretionary	**52,803**	**52,041**	**51,022**	**52,769**	**54,162**	**52,422**
Mandatory:						
Department of Education:						
Office of Special Education and Rehabilitative Services:						
Rehabilitation Services and Disability Research	2,837	2,874	2,975	2,766	2,916	2,945
Department of Health and Human Services:						
Administration for Children and Families:						
Promoting Safe and Stable Families	364	339	339	369	358	332
Social Services Block Grant	1,700	1,700	1,200	1,956	1,936	1,302
Children and Families Services Programs	.....	12	50	.....	5	25
Department of Labor:						
Employment and Training Administration:						
Federal Unemployment Benefits and Allowances	260	260	260	217	219	214
Total, mandatory	**5,161**	**5,185**	**4,824**	**5,308**	**5,434**	**4,818**
Total, education, training, employment, and social services	**57,964**	**57,226**	**55,846**	**58,077**	**59,596**	**57,240**
HEALTH						
Discretionary:						
Department of Agriculture:						
Food Safety and Inspection Service:						
Salaries and Expenses	47	47	47	44	45	48
Department of Health and Human Services:						
Health Resources and Services Administration	2,902	2,847	2,847	3,183	3,110	3,060
Centers for Disease Control and Prevention:						
Disease Control, Research, and Training	2,358	2,358	2,358	2,358	2,358	2,358
Substance Abuse and Mental Health Services Administration	3,206	1,158	1,113	3,179	1,187	1,224
Departmental Management:						
Public Health and Social Services Emergency Fund	478	408	351	1,405	1,206	595
General Departmental Management	125	122	133	134	104	126
Department of Labor:						
Occupational Safety and Health Administration:						
Salaries and Expenses	96	91	91	101	97	97
Mine Safety and Health Administration:						
Salaries and Expenses	8	8	8	8	8	8
Total, discretionary	**9,220**	**7,039**	**6,948**	**10,412**	**8,115**	**7,516**
Mandatory:						
Department of Health and Human Services:						
Centers for Medicare and Medicaid Services:						
Grants to States for Medicaid	168,255	206,921	214,753	190,624	203,788	215,662
State Children's Health Insurance Fund	5,690	6,640	6,815	6,000	7,600	8,202
State Grants and Demonstrations	698	764	652	1,275	929	934
Total, mandatory	**174,643**	**214,325**	**222,220**	**197,899**	**212,317**	**224,798**
Total, health	**183,863**	**221,364**	**229,168**	**208,311**	**220,432**	**232,314**

Table 8–4. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2007 Actual	2008 Estimate	2009 Estimate	2007 Actual	2008 Estimate	2009 Estimate
INCOME SECURITY						
Discretionary:						
Department of Agriculture:						
Food and Nutrition Service:						
Commodity Assistance Program	178	211	70	184	221	87
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	5,204	6,020	6,100	5,309	5,974	5,955
Department of Health and Human Services:						
Administration for Children and Families:						
Low Income Home Energy Assistance	2,161	2,570	2,000	2,498	2,522	2,136
Refugee and Entrant Assistance	370	408	445	389	476	510
Payments to States for the Child Care and Development Block Grant	2,056	2,056	2,056	2,128	1,994	2,055
Department of Homeland Security:						
Federal Emergency Management Agency:						
Emergency Food and Shelter	151	153	100	150	154	100
Department of Housing and Urban Development:						
Public and Indian Housing Programs:						
Public Housing Operating Fund	3,864	4,200	4,300	3,706	4,278	4,286
Drug Elimination Grants for Low-income Housing	....	....	....	1	1	....
Revitalization of Severely Distressed Public Housing (HOPE VI)	96	100	....	516	450	400
Native Hawaiian Housing Block Grant	9	9	6	8	7	6
Tenant Based Rental Assistance	15,881	15,696	16,031	15,971	16,051	16,253
Project-based Rental Assistance	149	239	232	187	244	249
Public Housing Capital Fund	2,420	2,422	2,009	3,071	3,021	2,958
Native American Housing Block Grant	624	630	627	580	609	630
Community Planning and Development:						
Homeless Assistance Grants	1,434	1,584	1,633	1,386	1,406	1,440
Home Investment Partnership Program	1,756	1,701	1,963	1,876	2,018	2,022
Housing Opportunities for Persons with AIDS	286	298	298	278	303	289
Rural Housing and Economic Development	17	17	....	20	23	23
Housing Programs:						
Homeownership and Opportunity for People Everywhere Grants (HOPE Grants)	–1	....	....	....	....	....
Housing for Persons with Disabilities	237	236	158	305	301	285
Housing for the Elderly	735	734	538	978	925	900
Department of Labor:						
Employment and Training Administration:						
Unemployment Trust Fund	2,508	2,464	2,636	2,529	2,471	2,610
Total, discretionary	**40,135**	**41,748**	**41,202**	**42,070**	**43,449**	**43,194**
Mandatory:						
Department of Agriculture:						
Agricultural Marketing Service:						
Funds for Strengthening Markets, Income, and Supply (section 32)	1,131	503	1,022	693	502	1,012
Food and Nutrition Service:						
Food Stamp Program	4,635	4,847	5,015	4,602	4,808	4,998
Commodity Assistance Program	15	15	15	8	8	8
Child Nutrition Programs	13,195	13,811	14,340	12,871	14,278	14,505
Department of Health and Human Services:						
Administration for Children and Families:						
Payments to States for Child Support Enforcement and Family Support Programs	4,399	3,998	3,766	4,238	4,277	3,960
Contingency Fund	....	....	....	56	231	271
Payments to States for Foster Care and Adoption Assistance	6,855	6,877	6,889	6,563	6,670	6,886
Child Care Entitlement to States	2,917	2,917	2,917	2,994	2,979	2,966
Temporary Assistance for Needy Families	17,059	17,059	17,058	16,876	17,030	17,085
Total, mandatory	**50,206**	**50,027**	**51,022**	**48,901**	**50,783**	**51,691**
Total, income security	**90,341**	**91,775**	**92,224**	**90,971**	**94,232**	**94,885**
SOCIAL SECURITY						
Mandatory:						
Social Security Administration:						
Federal Disability Insurance Trust Fund	40	39	34	16	44	37

Table 8–4. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2007 Actual	2008 Estimate	2009 Estimate	2007 Actual	2008 Estimate	2009 Estimate
VETERANS BENEFITS AND SERVICES						
Discretionary:						
Department of Veterans Affairs:						
Veterans Health Administration:						
Medical Services	504	554	579	504	554	579
Departmental Administration:						
Grants for Construction of State Extended Care Facilities	85	165	85	109	96	97
Grants for the Construction of State Veterans Cemeteries	32	40	32	26	27	23
Total, veterans benefits and services	**621**	**759**	**696**	**639**	**677**	**699**
ADMINISTRATION OF JUSTICE						
Discretionary:						
Department of Homeland Security:						
Federal Emergency Management Agency:						
State and Local Programs	375	......	......	340	50	......
Department of Housing and Urban Development:						
Fair Housing and Equal Opportunity:						
Fair Housing Activities	46	50	51	47	47	50
Department of Justice:						
Legal Activities and U.S. Marshals:						
Assets Forfeiture Fund	21	21	21	21	21	21
Office of Justice Programs:						
Justice Assistance	158	131	89	205	164	266
State and Local Law Enforcement Assistance	1,144	1,091	269	1,328	1,257	1,341
Juvenile Justice Programs	285	331	126	312	299	384
Community Oriented Policing Services	511	251	–100	758	480	230
Violence against Women Prevention and Prosecution Programs	373	371	260	367	338	339
Equal Employment Opportunity Commission:						
Salaries and Expenses	30	28	26	33	28	26
Federal Drug Control Programs:						
High-intensity Drug Trafficking Areas Program	201	230	200	193	215	188
State Justice Institute:						
State Justice Institute: Salaries and Expenses	3	4	......	3	4	......
Total, discretionary	**3,147**	**2,508**	**942**	**3,607**	**2,903**	**2,845**
Mandatory:						
Department of Justice:						
Legal Activities and U.S. Marshals:						
Assets Forfeiture Fund	457	392	480	406	313	563
Office of Justice Programs:						
Crime Victims Fund	580	500	554	557	1,000	725
Department of the Treasury:						
Departmental Offices:						
Treasury Forfeiture Fund	144	110	110	33	124	113
Total, mandatory	**1,181**	**1,002**	**1,144**	**996**	**1,437**	**1,401**
Total, administration of justice	**4,328**	**3,510**	**2,086**	**4,603**	**4,340**	**4,246**
GENERAL GOVERNMENT						
Discretionary:						
Department of Agriculture:						
Forest Service:						
Forest Service Permanent Appropriations	315	......	......	......	315	......
Department of Health and Human Services:						
Administration for Children and Families:						
Disabled Voter Services	......	......	......	3	2	1
Department of the Interior:						
United States Fish and Wildlife Service:						
National Wildlife Refuge Fund	14	14	11	14	14	11
Insular Affairs:						
Assistance to Territories	48	48	47	53	54	53
Trust Territory of the Pacific Islands	......	......	......	......	1	1

Table 8–4. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued

(in millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2007 Actual	2008 Estimate	2009 Estimate	2007 Actual	2008 Estimate	2009 Estimate
Department-Wide Programs:						
Payments in Lieu of Taxes	233	229	195	232	229	195
District of Columbia:						
District of Columbia Courts:						
Federal Payment to the District of Columbia Courts	217	224	224	191	224	222
Defender Services in District of Columbia Courts	43	48	48	37	48	48
District of Columbia General and Special Payments:						
Federal Support for Economic Development and Management Reforms in the District	39	37	33	39	37	33
Election Assistance Commission:						
Election Reform Programs	....	115	....	....	58	52
Election Data Collections Grants	....	10	....	....	10	....
Total, discretionary	**909**	**725**	**558**	**569**	**992**	**616**
Mandatory:						
Department of Agriculture:						
Forest Service:						
Forest Service Permanent Appropriations	367	113	88	433	204	88
Department of Energy:						
Energy Programs:						
Payments to States under Federal Power Act	3	3	3	3	3	3
Department of Homeland Security:						
Customs and Border Protection:						
Refunds, Transfers, and Expenses of Operation, Puerto Rico	93	98	97	92	98	97
Department of the Interior:						
Minerals Management Service:						
Mineral Leasing and Associated Payments	1,883	2,146	2,644	1,883	2,146	2,644
Geothermal Lease Revenues, Payment to Counties	4	9	....	4	9	....
Office of Surface Mining Reclamation and Enforcement:						
Payments to States in Lieu of Coal Fee Receipts	....	187	187	....	52	89
United States Fish and Wildlife Service:						
National Wildlife Refuge Fund	12	12	12	12	12	12
Insular Affairs:						
Assistance to Territories	30	28	28	22	16	17
Payments to the United States Territories, Fiscal Assistance	127	123	113	124	121	113
Department of the Treasury:						
Alcohol and Tobacco Tax and Trade Bureau:						
Internal Revenue Collections for Puerto Rico	462	479	491	462	479	491
Corps of Engineers-Civil Works:						
Permanent Appropriations	4	4	4	....	4	4
Total, mandatory	**2,985**	**3,202**	**3,667**	**3,035**	**3,144**	**3,558**
Total, general government	**3,894**	**3,927**	**4,225**	**3,604**	**4,136**	**4,174**
Total, Grants	**414,580**	**451,233**	**441,152**	**443,797**	**466,568**	**476,136**
Discretionary	127,123	127,116	114,241	184,847	189,937	185,836
Mandatory	287,457	324,117	326,911	258,950	276,631	290,300

APPENDIX: SELECTED GRANT DATA BY STATE

This Appendix displays State-by-State spending for the selected grant programs to State and local governments shown in the following table, "Summary of Programs by Agency, Bureau, and Program." The programs selected here cover more than 80 percent of total grant spending.

The first summary table shows the obligations for each program. The second summary table, "Summary of Programs by State," shows the amounts for each State for these programs. The individual program tables display obligations for each program on a State-by-State basis, consistent with the estimates in this budget. Each table reports the following information:

- The Federal agency that administers the program.
- The program title and number as contained in the *Catalog of Federal Domestic Assistance.*
- The budget account number from which the program is funded.
- Actual 2007 obligations by State, Federal territory, and Indian tribes in thousands of dollars. Undistributed obligations shown at the bottom of each page are generally project funds that are not distributed by formula, or programs for which State-by-State data are not available.
- Estimates of 2008 obligations by State from previous budget authority, from new budget authority, and total obligations.
- Estimates of 2009 obligations by State, which are based on the 2009 Budget request, unless otherwise noted.
- The percentage share of 2009 estimated program funds distributed to each State.

Table 8–5. Summary of Programs by Agency, Bureau, and Program

(obligations in millions of dollars)

Agency, Bureau, and Program	FY 2007 (actual)	Estimated FY 2008 obligations from:			FY 2009 (estimated)
		Previous authority	New authority	Total	
Department of Agriculture, Food and Nutrition Service					
School Breakfast Program (10.553)	2,229	....	2,367	2,367	2,522
National School Lunch Program (10.555)	7,835	350	7,860	8,210	8,600
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557)	5,548	185	6,020	6,205	6,251
Child and Adult Care Food Program (10.558)	2,305	....	2,287	2,287	2,387
State Administrative Matching Grants for Food Stamp Program (10.561)	2,509	....	2,620	2,620	2,723
Department of Education, Office of Elementary and Secondary Education					
Title I Grants to Local Educational Agencies (84.010)	12,838	....	13,899	13,899	14,305
Improving Teacher Quality State Grants (84.367)	2,887	....	2,935	2,935	2,835
Department of Education, Office of Special Education and Rehabilitative Services					
Special Education—Grants to States (84.027)	10,783	....	10,948	10,948	11,285
Rehabilitation Services—Vocational Rehabilitation Grants to States (84.126)	2,837	....	2,874	2,874	2,874
Department of Health and Human Services, Centers for Medicare and Medicaid Services					
State Children's Health Insurance Program (93.767)	5,690	....	6,640	6,640	5,315
Grants to States for Medicaid (93.778)	205,114	....	207,053	207,053	220,768
Department of Health and Human Services, Administration for Children and Families					
Temporary Assistance for Needy Families (TANF)—Family Assistance Grants (93.558)	17,034	....	17,059	17,059	17,059
Child Support Enforcement—Federal Share of State and Local Administrative Costs and Incentives (93.563)	4,396	....	4,201	4,201	3,825
Low Income Home Energy Assistance Program (93.568)	1,980	....	1,980	1,980	1,700
Child Care and Development Block Grant (93.575)	2,051	....	2,062	2,062	2,062
Child Care and Development Fund—Mandatory (93.596a)	1,240	....	1,240	1,240	1,240
Child Care and Development Fund—Matching (93.596b)	1,677	....	1,677	1,677	1,677
Head Start (93.600)	6,888	....	6,878	6,878	7,027
Foster Care—Title IV–E (93.658)	4,688	....	4,581	4,581	4,463
Adoption Assistance (93.659)	1,942	....	2,156	2,156	2,286
Social Services Block Grant (93.667)	1,700	....	1,700	1,700	1,200
Department of Housing and Urban Development, Public and Indian Housing Programs					
Public Housing Operating Fund (14.850)	3,865	....	4,200	4,200	4,300
Section 8 Housing Choice Vouchers (14.871)	16,303	350	15,696	16,047	16,031
Public Housing Capital Fund (14.872)	2,605	160	2,422	2,582	2,009
Department of Housing and Urban Development, Community Planning and Development					
Community Development Block Grants (14.218)	3,772	....	6,866	6,866	2,794
HOME Investment Partnerships Program (14.239)	1,757	....	1,704	1,704	1,967
Department of Transportation, Federal Aviation Administration					
Airport Improvement Program (20.106)	3,691	67	17	84	2,750
Department of Transportation, Federal Highway Administration					
Highway Planning and Construction (20.205)	35,576	....	41,216	41,216	39,399
Department of Transportation, Federal Transit Administration					
Federal Transit Formula Grants and Research (20.507)	8,003	1,452	5,148	6,600	8,614
Federal Communications Commission					
Universal Service Fund E–Rate	1,418	....	1,689	1,689	1,712
Total	381,160	2,565	387,994	390,558	401,980

Table 8–6. Summary of Programs by State

(obligations in millions of dollars)

State or Territory	All programs FY 2007 (actual)	Programs distributed in all years					FY 2009 Percentage of distributed total
		FY 2007 (actual)	Estimated FY 2008 obligations from:			FY 2009 (estimated)	
			Previous authority	New authority	Total		
Alabama	5,568	5,568	28	5,335	5,363	5,464	1.41
Alaska	1,729	1,729	13	1,476	1,490	1,728	0.45
Arizona	7,446	7,446	53	7,962	8,015	8,531	2.20
Arkansas	3,944	3,944	19	4,219	4,239	4,592	1.19
California	45,829	45,829	439	45,089	45,528	46,682	12.06
Colorado	3,644	3,644	21	3,627	3,648	3,800	0.98
Connecticut	4,417	4,417	76	4,514	4,590	4,664	1.20
Delaware	1,017	1,017	10	1,043	1,053	1,112	0.29
District of Columbia	1,867	1,867	70	1,958	2,028	2,071	0.53
Florida	16,568	16,568	112	16,254	16,366	16,802	4.34
Georgia	9,739	9,739	79	9,507	9,587	9,862	2.55
Hawaii	1,528	1,528	12	1,361	1,373	1,404	0.36
Idaho	1,595	1,595	6	1,570	1,576	1,684	0.44
Illinois	14,550	14,550	68	13,662	13,729	13,861	3.58
Indiana	6,962	6,962	39	6,810	6,849	7,111	1.84
Iowa	3,184	3,184	12	3,108	3,120	3,260	0.84
Kansas	2,809	2,809	19	2,683	2,702	2,767	0.71
Kentucky	5,729	5,729	22	5,800	5,823	6,026	1.56
Louisiana	6,915	6,915	30	7,317	7,347	7,833	2.02
Maine	2,225	2,225	5	2,114	2,119	2,277	0.59
Maryland	5,789	5,789	73	5,712	5,785	6,005	1.55
Massachusetts	10,010	10,010	88	9,758	9,846	10,162	2.62
Michigan	10,916	10,916	38	10,709	10,748	11,195	2.89
Minnesota	6,017	6,017	43	6,075	6,118	6,442	1.66
Mississippi	4,616	4,616	19	4,615	4,634	4,892	1.26
Missouri	7,412	7,412	32	7,736	7,767	8,359	2.16
Montana	1,312	1,312	4	1,201	1,205	1,245	0.32
Nebraska	1,904	1,904	11	1,899	1,910	1,993	0.51
Nevada	1,836	1,836	44	1,723	1,767	1,763	0.46
New Hampshire	1,279	1,279	8	1,263	1,271	1,331	0.34
New Jersey	10,007	10,007	41	9,402	9,443	9,655	2.49
New Mexico	3,469	3,469	13	3,541	3,554	3,819	0.99
New York	39,935	39,935	240	40,227	40,467	41,570	10.74
North Carolina	10,944	10,944	71	11,012	11,083	11,657	3.01
North Dakota	947	947	4	935	939	959	0.25
Ohio	14,475	14,475	62	14,379	14,440	15,185	3.92
Oklahoma	4,514	4,514	15	4,626	4,641	4,646	1.20
Oregon	3,901	3,901	15	3,983	3,999	4,247	1.10
Pennsylvania	16,703	16,703	65	16,498	16,562	17,216	4.45
Rhode Island	1,781	1,781	8	1,706	1,714	1,780	0.46
South Carolina	5,110	5,110	28	5,041	5,069	5,117	1.32
South Dakota	1,020	1,020	3	978	981	1,010	0.26
Tennessee	7,930	7,930	36	7,804	7,839	8,173	2.11
Texas	26,564	26,564	152	26,018	26,170	26,978	6.97
Utah	2,314	2,314	11	2,149	2,160	2,239	0.58
Vermont	1,145	1,145	2	1,135	1,137	1,155	0.30
Virginia	6,023	6,023	57	6,103	6,160	6,395	1.65
Washington	6,588	6,588	51	6,319	6,370	6,568	1.70
West Virginia	3,013	3,013	10	2,975	2,985	3,087	0.80
Wisconsin	5,571	5,571	24	5,605	5,629	5,926	1.53
Wyoming	713	713	2	668	670	716	0.18
American Samoa	55	55	*	58	58	65	0.02
Guam	136	136	1	126	128	139	0.04
Northern Mariana Islands	110	110	*	35	35	94	0.02
Puerto Rico	2,623	2,623	85	2,708	2,793	2,770	0.72
Freely Associated States	7	7	....	7	7	7	*
Virgin Islands	147	147	2	162	165	166	0.04
Indian Tribes	825	825	2	880	882	906	0.23
Total, programs distributed by State in all years	**374,926**	**374,926**	**2,496**	**371,178**	**373,675**	**387,162**	**100.00**
MEMORANDUM:.							
Not distributed by State in all years [1]	6,234	6,234	69	16,815	16,884	14,818	N/A
Total, including undistributed	381,160	381,160	2,565	387,994	390,558	401,980	N/A

* $500,000 or less or 0.005 percent or less.

[1] The sum of programs not distributed by State in all years.

Table 8–7. School Breakfast Program (10.553)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	43,015	....	47,129	47,129	50,217	1.99
Alaska	4,926	....	5,397	5,397	5,751	0.23
Arizona	44,933	....	49,231	49,231	52,456	2.08
Arkansas	31,293	....	34,286	34,286	36,533	1.45
California	264,441	....	289,734	289,734	308,719	12.24
Colorado	18,503	....	20,273	20,273	21,601	0.86
Connecticut	14,149	....	15,502	15,502	16,518	0.65
Delaware	5,275	....	5,780	5,780	6,158	0.24
District of Columbia	4,077	....	4,467	4,467	4,760	0.19
Florida	122,102	....	133,781	133,781	142,546	5.65
Georgia	109,652	....	120,140	120,140	128,012	5.08
Hawaii	7,364	....	8,068	8,068	8,597	0.34
Idaho	11,978	....	13,124	13,124	13,984	0.55
Illinois	61,853	....	67,769	67,769	72,209	2.86
Indiana	36,321	....	39,795	39,795	42,402	1.68
Iowa	14,266	....	15,631	15,631	16,655	0.66
Kansas	17,016	....	18,644	18,644	19,865	0.79
Kentucky	44,963	....	49,264	49,264	52,491	2.08
Louisiana	50,114	....	54,907	54,907	58,505	2.32
Maine	6,516	....	7,139	7,139	7,607	0.30
Maryland	25,585	....	28,032	28,032	29,869	1.18
Massachusetts	28,882	....	31,644	31,644	33,718	1.34
Michigan	50,457	....	55,283	55,283	58,905	2.34
Minnesota	23,785	....	26,060	26,060	27,767	1.10
Mississippi	44,210	....	48,439	48,439	51,612	2.05
Missouri	42,994	....	47,106	47,106	50,193	1.99
Montana	4,586	....	5,025	5,025	5,354	0.21
Nebraska	9,347	....	10,241	10,241	10,912	0.43
Nevada	12,842	....	14,070	14,070	14,992	0.59
New Hampshire	3,237	....	3,547	3,547	3,779	0.15
New Jersey	35,290	....	38,665	38,665	41,199	1.63
New Mexico	25,237	....	27,651	27,651	29,463	1.17
New York	118,500	....	129,834	129,834	138,341	5.48
North Carolina	77,333	....	84,730	84,730	90,281	3.58
North Dakota	3,091	....	3,387	3,387	3,609	0.14
Ohio	62,701	....	68,698	68,698	73,199	2.90
Oklahoma	38,834	....	42,548	42,548	45,336	1.80
Oregon	26,942	....	29,519	29,519	31,453	1.25
Pennsylvania	56,359	....	61,750	61,750	65,795	2.61
Rhode Island	5,433	....	5,953	5,953	6,343	0.25
South Carolina	48,749	....	53,412	53,412	56,911	2.26
South Dakota	5,072	....	5,557	5,557	5,921	0.23
Tennessee	53,207	....	58,296	58,296	62,116	2.46
Texas	281,954	....	308,922	308,922	329,163	13.05
Utah	11,767	....	12,892	12,892	13,737	0.54
Vermont	3,354	....	3,675	3,675	3,916	0.16
Virginia	40,779	....	44,679	44,679	47,607	1.89
Washington	32,749	....	35,881	35,881	38,232	1.52
West Virginia	16,881	....	18,496	18,496	19,707	0.78
Wisconsin	22,341	....	24,478	24,478	26,082	1.03
Wyoming	2,326	....	2,548	2,548	2,715	0.11
American Samoa	....	....	....	....	....	....
Guam	1,732	....	1,898	1,898	2,022	0.08
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	30,371	....	33,276	33,276	35,456	1.41
Freely Associated States	....	....	....	....	....	....
Virgin Islands	829	....	908	908	968	0.04
Indian Tribes	....	....	....	....	....	....
Undistributed	68,037	....	....	....	....	....
DoD/USAF/USMC/USN	23	....	25	25	27	*
Total	**2,228,573**	....	**2,367,186**	**2,367,186**	**2,522,286**	**[1] 100.00**

* $500 or less or 0.005 percent or less.
[1] Excludes undistributed obligations.

Table 8–8. National School Lunch Program (10.555)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	149,726	6,811	153,046	159,857	167,449	1.95
Alaska	22,874	1,041	23,381	24,422	25,582	0.30
Arizona	173,653	7,900	177,503	185,403	194,208	2.26
Arkansas	93,501	4,254	95,573	99,827	104,568	1.22
California	1,026,794	46,711	1,049,555	1,096,266	1,148,328	13.35
Colorado	83,037	3,778	84,877	88,655	92,866	1.08
Connecticut	63,855	2,905	65,271	68,176	71,413	0.83
Delaware	17,693	805	18,085	18,890	19,787	0.23
District of Columbia	14,141	643	14,455	15,098	15,815	0.18
Florida	415,638	18,908	424,853	443,761	464,836	5.41
Georgia	327,140	14,882	334,393	349,275	365,863	4.25
Hawaii	27,314	1,243	27,919	29,162	30,547	0.36
Idaho	35,655	1,622	36,445	38,067	39,875	0.46
Illinois	298,952	13,600	305,579	319,179	334,338	3.89
Indiana	148,624	6,761	151,919	158,680	166,216	1.93
Iowa	66,469	3,024	67,942	70,966	74,337	0.86
Kansas	66,140	3,009	67,606	70,615	73,969	0.86
Kentucky	129,949	5,912	132,830	138,742	145,331	1.69
Louisiana	157,038	7,144	160,519	167,663	175,626	2.04
Maine	23,731	1,080	24,257	25,337	26,540	0.31
Maryland	95,550	4,347	97,668	102,015	106,860	1.24
Massachusetts	108,709	4,945	111,119	116,064	121,577	1.41
Michigan	199,897	9,094	204,328	213,422	223,558	2.60
Minnesota	100,582	4,576	102,812	107,388	112,488	1.31
Mississippi	125,889	5,727	128,680	134,407	140,790	1.64
Missouri	138,541	6,303	141,612	147,915	154,940	1.80
Montana	17,627	802	18,018	18,820	19,713	0.23
Nebraska	42,943	1,954	43,895	45,849	48,026	0.56
Nevada	52,571	2,392	53,736	56,128	58,794	0.68
New Hampshire	16,066	731	16,422	17,153	17,968	0.21
New Jersey	151,890	6,910	155,257	162,167	169,869	1.98
New Mexico	66,491	3,025	67,965	70,990	74,361	0.86
New York	481,272	21,894	491,942	513,836	538,239	6.26
North Carolina	249,823	11,365	255,361	266,726	279,394	3.25
North Dakota	12,771	581	13,054	13,635	14,283	0.17
Ohio	230,288	10,476	235,394	245,870	257,547	2.99
Oklahoma	109,824	4,996	112,259	117,255	122,824	1.43
Oregon	75,414	3,431	77,086	80,517	84,341	0.98
Pennsylvania	235,909	10,732	241,139	251,871	263,833	3.07
Rhode Island	20,965	954	21,430	22,384	23,447	0.27
South Carolina	133,043	6,052	135,993	142,045	148,791	1.73
South Dakota	19,968	908	20,411	21,319	22,332	0.26
Tennessee	171,327	7,794	175,125	182,919	191,607	2.23
Texas	850,870	38,708	869,733	908,441	951,585	11.07
Utah	59,272	2,696	60,586	63,282	66,288	0.77
Vermont	10,046	457	10,269	10,726	11,235	0.13
Virginia	145,661	6,626	148,891	155,517	162,903	1.89
Washington	124,140	5,647	126,892	132,539	138,834	1.61
West Virginia	47,037	2,140	48,080	50,220	52,605	0.61
Wisconsin	106,152	4,829	108,505	113,334	118,717	1.38
Wyoming	9,765	444	9,982	10,426	10,921	0.13
American Samoa	....	....	....	....	....	....
Guam	5,497	250	5,619	5,869	6,148	0.07
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	121,995	5,550	124,699	130,249	136,435	1.59
Freely Associated States	....	....	....	....	....	....
Virgin Islands	4,231	192	4,325	4,517	4,732	0.06
Indian Tribes	....	....	....	....	....	....
Undistributed	145,664	....	....	....	....	....
DoD/USAF/USMC/USN	5,612	255	5,737	5,992	6,276	0.07
Total	**7,835,226**	**349,816**	**7,860,032**	**8,209,848**	**8,599,755**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–9. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	95,783	3,199	103,936	107,135	107,929	1.73
Alaska	23,068	770	25,032	25,802	25,993	0.42
Arizona	98,619	3,294	107,013	110,307	111,125	1.78
Arkansas	57,018	1,904	61,872	63,776	64,248	1.03
California	899,005	30,025	975,530	1,005,555	1,013,008	16.20
Colorado	54,693	1,827	59,348	61,175	61,628	0.99
Connecticut	41,111	1,373	44,610	45,983	46,324	0.74
Delaware	12,214	408	13,254	13,662	13,763	0.22
District of Columbia	11,604	388	12,591	12,979	13,075	0.21
Florida	288,556	9,637	313,118	322,755	325,147	5.20
Georgia	197,784	6,605	214,620	221,225	222,865	3.57
Hawaii	30,416	1,016	33,005	34,021	34,273	0.55
Idaho	21,943	733	23,811	24,544	24,726	0.40
Illinois	198,109	6,616	214,972	221,588	223,231	3.57
Indiana	86,927	2,903	94,326	97,229	97,950	1.57
Iowa	40,804	1,363	44,277	45,640	45,978	0.74
Kansas	39,255	1,311	42,596	43,907	44,233	0.71
Kentucky	89,293	2,982	96,894	99,876	100,616	1.61
Louisiana	95,140	3,177	103,239	106,416	107,204	1.71
Maine	16,705	558	18,127	18,685	18,823	0.30
Maryland	75,419	2,519	81,838	84,357	84,983	1.36
Massachusetts	81,351	2,717	88,275	90,992	91,667	1.47
Michigan	159,028	5,311	172,564	177,875	179,194	2.87
Minnesota	82,232	2,746	89,232	91,978	92,660	1.48
Mississippi	71,163	2,377	77,220	79,597	80,187	1.28
Missouri	81,508	2,722	88,446	91,168	91,844	1.47
Montana	13,485	450	14,633	15,083	15,195	0.24
Nebraska	25,996	868	28,209	29,077	29,292	0.47
Nevada	29,995	1,002	32,548	33,550	33,799	0.54
New Hampshire	12,586	420	13,658	14,078	14,182	0.23
New Jersey	99,002	3,306	107,429	110,735	111,556	1.78
New Mexico	40,009	1,336	43,415	44,751	45,082	0.72
New York	362,194	12,096	393,024	405,120	408,123	6.53
North Carolina	152,335	5,088	165,301	170,389	171,652	2.75
North Dakota	9,544	319	10,356	10,675	10,754	0.17
Ohio	171,805	5,738	186,429	192,167	193,591	3.10
Oklahoma	57,279	1,913	62,155	64,068	64,542	1.03
Oregon	63,935	2,135	69,377	71,512	72,042	1.15
Pennsylvania	149,618	4,997	162,353	167,350	168,591	2.70
Rhode Island	18,041	603	19,576	20,179	20,329	0.33
South Carolina	78,092	2,608	84,739	87,347	87,995	1.41
South Dakota	12,297	411	13,343	13,754	13,856	0.22
Tennessee	116,873	3,903	126,821	130,724	131,693	2.11
Texas	510,492	17,049	553,945	570,994	575,226	9.20
Utah	34,101	1,139	37,004	38,143	38,425	0.61
Vermont	12,522	418	13,588	14,006	14,110	0.23
Virginia	91,750	3,064	99,560	102,624	103,385	1.65
Washington	112,464	3,756	122,037	125,793	126,725	2.03
West Virginia	32,403	1,082	35,161	36,243	36,512	0.58
Wisconsin	71,893	2,401	78,013	80,414	81,010	1.30
Wyoming	7,436	248	8,069	8,317	8,379	0.13
American Samoa	6,795	227	7,373	7,600	7,657	0.12
Guam	7,593	254	8,239	8,493	8,556	0.14
Northern Mariana Islands	1,943	65	2,108	2,173	2,189	0.04
Puerto Rico	207,509	6,930	225,172	232,102	233,823	3.74
Freely Associated States	....	....	....	....	....	....
Virgin Islands	5,857	196	6,355	6,551	6,600	0.11
Indian Tribes	52,552	1,755	57,025	58,780	59,216	0.95
Undistributed	....	....	....	....	....	....
Other [1]	30,632	1,023	33,239	34,262	34,516	0.55
Total	**5,547,776**	**185,281**	**6,020,000**	**6,205,281**	**6,251,277**	[2] **100.00**

[1] Includes WIC Infrastructure, Technical Assistance, Breastfeeding Peer Counselors, and State Management Information Systems.
[2] Excludes undistributed obligations.

Table 8–10. Child and Adult Care Food Program (10.558)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	34,609	....	36,671	36,671	38,277	1.60
Alaska	7,323	....	7,759	7,759	8,099	0.34
Arizona	42,699	....	45,243	45,243	47,225	1.98
Arkansas	30,259	....	32,062	32,062	33,466	1.40
California	246,388	....	261,068	261,068	272,503	11.42
Colorado	19,151	....	20,292	20,292	21,181	0.89
Connecticut	11,372	....	12,050	12,050	12,577	0.53
Delaware	10,608	....	11,240	11,240	11,732	0.49
District of Columbia	3,578	....	3,791	3,791	3,957	0.17
Florida	121,075	....	128,289	128,289	133,908	5.61
Georgia	84,626	....	89,668	89,668	93,596	3.92
Hawaii	4,847	....	5,136	5,136	5,361	0.22
Idaho	5,546	....	5,876	5,876	6,134	0.26
Illinois	99,376	....	105,297	105,297	109,909	4.60
Indiana	33,701	....	35,709	35,709	37,273	1.56
Iowa	21,788	....	23,086	23,086	24,097	1.01
Kansas	30,718	....	32,548	32,548	33,974	1.42
Kentucky	26,055	....	27,607	27,607	28,817	1.21
Louisiana	52,798	....	55,944	55,944	58,394	2.45
Maine	9,249	....	9,800	9,800	10,229	0.43
Maryland	33,195	....	35,173	35,173	36,713	1.54
Massachusetts	44,910	....	47,586	47,586	49,670	2.08
Michigan	52,211	....	55,322	55,322	57,745	2.42
Minnesota	54,405	....	57,647	57,647	60,171	2.52
Mississippi	28,413	....	30,106	30,106	31,425	1.32
Missouri	39,240	....	41,578	41,578	43,399	1.82
Montana	9,111	....	9,654	9,654	10,077	0.42
Nebraska	23,875	....	25,298	25,298	26,406	1.11
Nevada	3,758	....	3,982	3,982	4,156	0.17
New Hampshire	3,041	....	3,222	3,222	3,363	0.14
New Jersey	53,050	....	56,211	56,211	58,673	2.46
New Mexico	33,904	....	35,924	35,924	37,497	1.57
New York	156,833	....	166,177	166,177	173,456	7.27
North Carolina	72,710	....	77,042	77,042	80,417	3.37
North Dakota	9,355	....	9,912	9,912	10,347	0.43
Ohio	65,078	....	68,955	68,955	71,976	3.02
Oklahoma	49,329	....	52,268	52,268	54,557	2.29
Oregon	23,244	....	24,629	24,629	25,708	1.08
Pennsylvania	60,930	....	64,560	64,560	67,388	2.82
Rhode Island	7,054	....	7,474	7,474	7,802	0.33
South Carolina	23,700	....	25,112	25,112	26,212	1.10
South Dakota	7,030	....	7,449	7,449	7,775	0.33
Tennessee	40,869	....	43,304	43,304	45,201	1.89
Texas	198,991	....	210,847	210,847	220,082	9.22
Utah	17,624	....	18,674	18,674	19,492	0.82
Vermont	3,959	....	4,195	4,195	4,379	0.18
Virginia	28,940	....	30,664	30,664	32,007	1.34
Washington	38,189	....	40,464	40,464	42,237	1.77
West Virginia	14,675	....	15,549	15,549	16,230	0.68
Wisconsin	35,412	....	37,522	37,522	39,165	1.64
Wyoming	4,659	....	4,937	4,937	5,153	0.22
American Samoa	....	....	....	....	....	....
Guam	254	....	269	269	281	0.01
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	23,680	....	25,091	25,091	26,190	1.10
Freely Associated States	....	....	....	....	....	....
Virgin Islands	654	....	693	693	723	0.03
Indian Tribes	....	....	....	....	....	....
Undistributed	147,081	....	....	....	....	....
Total	**2,305,129**	....	**2,286,629**	**2,286,629**	**2,386,780**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–11. State Administrative Matching Grants for Food Stamp Program (10.561)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	31,936	....	32,171	32,171	33,436	1.23
Alaska	9,759	....	9,831	9,831	10,218	0.38
Arizona	37,786	....	38,065	38,065	39,561	1.45
Arkansas	25,778	....	25,968	25,968	26,989	0.99
California	421,010	....	424,115	424,115	440,785	16.19
Colorado	27,977	....	28,184	28,184	29,292	1.08
Connecticut	24,783	....	24,966	24,966	25,948	0.95
Delaware	8,597	....	8,660	8,660	9,001	0.33
District of Columbia	13,100	....	13,197	13,197	13,716	0.50
Florida	69,088	....	69,597	69,597	72,334	2.66
Georgia	61,942	....	62,399	62,399	64,853	2.38
Hawaii	11,569	....	11,654	11,654	12,112	0.44
Idaho	11,205	....	11,288	11,288	11,732	0.43
Illinois	100,926	....	101,671	101,671	105,668	3.88
Indiana	34,499	....	34,754	34,754	36,120	1.33
Iowa	17,132	....	17,258	17,258	17,937	0.66
Kansas	17,585	....	17,714	17,714	18,411	0.68
Kentucky	39,712	....	40,005	40,005	41,578	1.53
Louisiana	48,254	....	48,610	48,610	50,521	1.86
Maine	8,154	....	8,214	8,214	8,537	0.31
Maryland	39,516	....	39,808	39,808	41,373	1.52
Massachusetts	41,715	....	42,023	42,023	43,675	1.60
Michigan	94,854	....	95,554	95,554	99,310	3.65
Minnesota	42,353	....	42,666	42,666	44,343	1.63
Mississippi	26,264	....	26,458	26,458	27,498	1.01
Missouri	44,037	....	44,362	44,362	46,106	1.69
Montana	7,919	....	7,978	7,978	8,291	0.30
Nebraska	12,155	....	12,245	12,245	12,726	0.47
Nevada	13,180	....	13,278	13,278	13,800	0.51
New Hampshire	5,729	....	5,771	5,771	5,998	0.22
New Jersey	90,363	....	91,030	91,030	94,609	3.47
New Mexico	33,773	....	34,023	34,023	35,360	1.30
New York	275,086	....	277,116	277,116	288,010	10.58
North Carolina	69,149	....	69,660	69,660	72,398	2.66
North Dakota	6,875	....	6,925	6,925	7,198	0.26
Ohio	99,817	....	100,553	100,553	104,506	3.84
Oklahoma	41,506	....	41,812	41,812	43,456	1.60
Oregon	43,616	....	43,938	43,938	45,665	1.68
Pennsylvania	139,541	....	140,570	140,570	146,097	5.37
Rhode Island	9,138	....	9,206	9,206	9,568	0.35
South Carolina	18,546	....	18,683	18,683	19,417	0.71
South Dakota	7,274	....	7,328	7,328	7,616	0.28
Tennessee	48,708	....	49,067	49,067	50,996	1.87
Texas	151,308	....	152,425	152,425	158,417	5.82
Utah	20,970	....	21,124	21,124	21,955	0.81
Vermont	7,475	....	7,530	7,530	7,826	0.29
Virginia	78,957	....	79,540	79,540	82,667	3.04
Washington	49,372	....	49,737	49,737	51,692	1.90
West Virginia	14,473	....	14,580	14,580	15,153	0.56
Wisconsin	35,334	....	35,595	35,595	36,994	1.36
Wyoming	4,345	....	4,377	4,377	4,550	0.17
American Samoa	....	....	....	....	....	....
Guam	2,336	....	2,353	2,353	2,446	0.09
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	4,332	....	4,364	4,364	4,535	0.17
Indian Tribes	....	....	....	....	....	....
Undistributed	–92,254	....	....	....	....	....
Total	**2,508,553**	....	**2,620,000**	**2,620,000**	**2,723,000**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–12. Title I Grants to Local Educational Agencies (84.010)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	194,251	....	214,991	214,991	222,999	1.56
Alaska	34,025	....	38,782	38,782	40,062	0.28
Arizona	263,204	....	272,913	272,913	274,362	1.92
Arkansas	122,031	....	143,561	143,561	150,207	1.05
California	1,643,496	....	1,696,362	1,696,362	1,726,660	12.07
Colorado	123,928	....	135,822	135,822	141,655	0.99
Connecticut	111,879	....	116,530	116,530	115,522	0.81
Delaware	34,110	....	38,366	38,366	39,628	0.28
District of Columbia	46,026	....	47,481	47,481	49,393	0.35
Florida	589,157	....	648,128	648,128	684,447	4.78
Georgia	410,011	....	446,325	446,325	462,328	3.23
Hawaii	39,639	....	44,675	44,675	47,033	0.33
Idaho	41,327	....	46,769	46,769	48,938	0.34
Illinois	593,136	....	593,016	593,016	588,643	4.11
Indiana	230,085	....	245,548	245,548	249,612	1.74
Iowa	69,214	....	73,177	73,177	75,355	0.53
Kansas	88,061	....	95,425	95,425	98,523	0.69
Kentucky	185,854	....	210,413	210,413	218,377	1.53
Louisiana	277,650	....	308,753	308,753	321,929	2.25
Maine	43,870	....	51,907	51,907	54,304	0.38
Maryland	188,034	....	188,316	188,316	192,271	1.34
Massachusetts	211,607	....	234,021	234,021	239,308	1.67
Michigan	460,302	....	523,125	523,125	542,541	3.79
Minnesota	114,583	....	124,791	124,791	127,993	0.89
Mississippi	174,679	....	188,589	188,589	193,970	1.36
Missouri	201,452	....	224,131	224,131	232,048	1.62
Montana	38,635	....	43,557	43,557	45,260	0.32
Nebraska	50,662	....	60,376	60,376	63,087	0.44
Nevada	80,299	....	79,754	79,754	84,303	0.59
New Hampshire	34,248	....	38,255	38,255	39,499	0.28
New Jersey	252,409	....	289,822	289,822	297,192	2.08
New Mexico	103,847	....	113,229	113,229	117,503	0.82
New York	1,210,071	....	1,224,956	1,224,956	1,238,206	8.66
North Carolina	301,104	....	358,662	358,662	376,764	2.63
North Dakota	29,825	....	33,838	33,838	34,946	0.24
Ohio	449,255	....	513,621	513,621	530,056	3.71
Oklahoma	128,266	....	148,369	148,369	154,619	1.08
Oregon	121,425	....	140,318	140,318	146,316	1.02
Pennsylvania	516,459	....	567,750	567,750	587,544	4.11
Rhode Island	50,390	....	52,952	52,952	53,284	0.37
South Carolina	187,902	....	205,430	205,430	214,194	1.50
South Dakota	37,274	....	41,565	41,565	42,969	0.30
Tennessee	205,728	....	240,758	240,758	253,110	1.77
Texas	1,169,500	....	1,301,829	1,301,829	1,343,209	9.39
Utah	58,197	....	59,538	59,538	61,129	0.43
Vermont	27,199	....	32,640	32,640	33,697	0.24
Virginia	204,733	....	226,630	226,630	237,163	1.66
Washington	182,795	....	188,788	188,788	193,690	1.35
West Virginia	89,221	....	99,947	99,947	103,997	0.73
Wisconsin	201,601	....	198,828	198,828	197,691	1.38
Wyoming	28,094	....	31,244	31,244	32,282	0.23
American Samoa	8,626	....	9,610	9,610	9,898	0.07
Guam	9,261	....	11,580	11,580	11,927	0.08
Northern Mariana Islands	3,303	....	3,491	3,491	3,595	0.03
Puerto Rico	455,589	....	511,419	511,419	538,073	3.76
Freely Associated States	....	....	....	....	....	....
Virgin Islands	11,592	....	12,913	12,913	13,301	0.09
Indian Tribes	91,754	....	97,546	97,546	100,476	0.70
Undistributed	....	....	....	....	....	....
Census	3,437	....	3,930	3,930	4,000	0.03
Pacific Regional Education Lab	3,811	....	3,811	3,811	3,811	0.03
Total	**12,838,125**	....	**13,898,875**	[1] **13,898,875**	[1] **14,304,901**	[2] **100.00**

[1] State allocations for 2008 and 2009 are preliminary estimates based on currently available data. Allocations based on new data may result in significant changes from these preliminary estimates.
[2] Excludes undistributed obligations.

Table 8–13. Improving Teacher Quality State Grants (84.367)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	45,924	....	47,006	47,006	45,343	1.60
Alaska	13,752	....	13,987	13,987	13,495	0.48
Arizona	48,406	....	48,508	48,508	46,417	1.64
Arkansas	27,691	....	28,670	28,670	27,633	0.97
California	331,226	....	333,420	333,420	321,120	11.33
Colorado	32,112	....	32,892	32,892	31,696	1.12
Connecticut	26,565	....	26,703	26,703	25,905	0.91
Delaware	13,752	....	13,987	13,987	13,495	0.48
District of Columbia	13,752	....	13,987	13,987	13,495	0.48
Florida	130,979	....	133,937	133,937	128,952	4.55
Georgia	77,838	....	79,174	79,174	76,042	2.68
Hawaii	13,752	....	13,987	13,987	13,495	0.48
Idaho	13,752	....	13,987	13,987	13,495	0.48
Illinois	118,046	....	117,749	117,749	114,011	4.02
Indiana	49,204	....	50,342	50,342	48,514	1.71
Iowa	21,891	....	22,325	22,325	21,618	0.76
Kansas	22,433	....	22,708	22,708	21,993	0.78
Kentucky	44,085	....	45,089	45,089	43,656	1.54
Louisiana	63,732	....	65,253	65,253	63,279	2.23
Maine	13,752	....	13,987	13,987	13,495	0.48
Maryland	41,424	....	41,396	41,396	40,121	1.42
Massachusetts	50,884	....	51,805	51,805	50,280	1.77
Michigan	109,550	....	112,217	112,217	109,003	3.84
Minnesota	37,842	....	38,499	38,499	37,346	1.32
Mississippi	42,062	....	42,778	42,778	41,436	1.46
Missouri	49,803	....	50,956	50,956	49,172	1.73
Montana	13,752	....	13,987	13,987	13,495	0.48
Nebraska	14,029	....	14,264	14,264	13,771	0.49
Nevada	15,347	....	15,447	15,447	14,773	0.52
New Hampshire	13,752	....	13,987	13,987	13,495	0.48
New Jersey	63,836	....	65,407	65,407	63,351	2.23
New Mexico	22,499	....	23,098	23,098	22,315	0.79
New York	228,364	....	227,826	227,826	221,790	7.82
North Carolina	65,161	....	67,896	67,896	65,004	2.29
North Dakota	13,752	....	13,987	13,987	13,495	0.48
Ohio	104,982	....	107,857	107,857	104,427	3.68
Oklahoma	32,691	....	33,967	33,967	32,758	1.16
Oregon	27,999	....	28,888	28,888	27,832	0.98
Pennsylvania	113,433	....	115,314	115,314	111,973	3.95
Rhode Island	13,752	....	13,987	13,987	13,495	0.48
South Carolina	37,101	....	37,932	37,932	36,449	1.29
South Dakota	13,752	....	13,987	13,987	13,495	0.48
Tennessee	49,288	....	51,116	51,116	49,163	1.73
Texas	240,403	....	247,032	247,032	237,584	8.38
Utah	18,799	....	18,979	18,979	18,297	0.65
Vermont	13,752	....	13,987	13,987	13,495	0.48
Virginia	51,306	....	52,437	52,437	50,603	1.78
Washington	47,422	....	48,010	48,010	46,341	1.63
West Virginia	23,079	....	23,716	23,716	23,107	0.82
Wisconsin	46,532	....	46,354	46,354	44,986	1.59
Wyoming	13,752	....	13,987	13,987	13,495	0.48
American Samoa	3,416	....	3,481	3,481	3,345	0.12
Guam	5,057	....	5,135	5,135	4,972	0.18
Northern Mariana Islands	1,611	....	1,639	1,639	1,580	0.06
Puerto Rico	91,535	....	92,572	92,572	89,371	3.15
Freely Associated States	....	....	....	....	....	....
Virgin Islands	4,281	....	4,348	4,348	4,208	0.15
Indian Tribes	14,365	....	14,603	14,603	14,105	0.50
Undistributed	....	....	....	....	....	....
Evaluation	14,437	....	14,676	14,676	14,176	0.50
Total	**2,887,439**	....	**2,935,248**	**2,935,248**	**2,835,248**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–14. Special Education—Grants to States (84.027)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	170,486	......	172,827	172,827	177,615	1.57
Alaska	33,552	......	34,370	34,370	35,493	0.31
Arizona	167,830	......	172,909	172,909	180,825	1.60
Arkansas	105,159	......	106,603	106,603	109,557	0.97
California	1,150,176	......	1,165,973	1,165,973	1,198,276	10.62
Colorado	141,994	......	144,726	144,726	151,248	1.34
Connecticut	124,652	......	126,364	126,364	129,865	1.15
Delaware	30,750	......	31,680	31,680	33,131	0.29
District of Columbia	15,461	......	15,929	15,929	16,658	0.15
Florida	590,329	......	598,437	598,437	615,017	5.45
Georgia	295,043	......	303,971	303,971	317,888	2.82
Hawaii	37,427	......	37,941	37,941	38,992	0.35
Idaho	50,887	......	51,586	51,586	53,016	0.47
Illinois	474,790	......	481,311	481,311	494,646	4.38
Indiana	239,750	......	243,042	243,042	249,776	2.21
Iowa	114,456	......	116,028	116,028	119,242	1.06
Kansas	100,185	......	101,561	101,561	104,375	0.92
Kentucky	147,980	......	150,013	150,013	154,169	1.37
Louisiana	177,474	......	179,912	179,912	184,896	1.64
Maine	51,300	......	52,005	52,005	53,445	0.47
Maryland	187,713	......	190,291	190,291	195,563	1.73
Massachusetts	266,132	......	269,787	269,787	277,261	2.46
Michigan	375,542	......	380,700	380,700	391,247	3.47
Minnesota	177,961	......	180,405	180,405	185,404	1.64
Mississippi	111,568	......	113,101	113,101	116,234	1.03
Missouri	212,961	......	215,886	215,886	221,867	1.97
Montana	34,572	......	35,120	35,120	36,244	0.32
Nebraska	70,005	......	70,966	70,966	72,932	0.65
Nevada	63,116	......	65,026	65,026	68,003	0.60
New Hampshire	44,492	......	45,103	45,103	46,352	0.41
New Jersey	338,874	......	343,528	343,528	353,045	3.13
New Mexico	85,445	......	86,618	86,618	89,018	0.79
New York	711,692	......	721,466	721,466	741,454	6.57
North Carolina	298,208	......	304,552	304,552	317,915	2.82
North Dakota	24,969	......	25,724	25,724	26,902	0.24
Ohio	410,348	......	415,983	415,983	427,508	3.79
Oklahoma	138,669	......	140,574	140,574	144,469	1.28
Oregon	120,909	......	122,570	122,570	125,966	1.12
Pennsylvania	400,450	......	405,950	405,950	417,197	3.70
Rhode Island	40,998	......	41,561	41,561	42,712	0.38
South Carolina	164,211	......	166,466	166,466	171,078	1.52
South Dakota	29,744	......	30,644	30,644	32,047	0.28
Tennessee	218,639	......	221,642	221,642	227,782	2.02
Texas	903,726	......	916,138	916,138	952,229	8.44
Utah	100,055	......	101,664	101,664	106,147	0.94
Vermont	24,075	......	24,803	24,803	25,939	0.23
Virginia	264,057	......	267,684	267,684	275,100	2.44
Washington	207,507	......	210,357	210,357	216,185	1.92
West Virginia	71,200	......	72,178	72,178	74,177	0.66
Wisconsin	195,173	......	197,854	197,854	203,335	1.80
Wyoming	25,257	......	26,021	26,021	27,212	0.24
American Samoa	6,202	......	6,297	6,297	6,454	0.06
Guam	13,753	......	13,962	13,962	14,310	0.13
Northern Mariana Islands	4,713	......	4,785	4,785	4,904	0.04
Puerto Rico	102,591	......	105,695	105,695	110,534	0.98
Freely Associated States	6,579	......	6,579	6,579	6,579	0.06
Virgin Islands	8,741	......	8,874	8,874	9,095	0.08
Indian Tribes	87,433	......	88,767	88,767	90,978	0.81
Undistributed	......	......	......	......	......	......
Technical Assistance	15,000	......	15,000	15,000	15,000	0.13
Total	**10,782,961**	......	**10,947,512**	**10,947,512**	**11,284,511**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–15. Rehabilitation Services—Vocational Rehabilitation Grants to States (84.126)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	57,890	....	55,817	55,817	55,750	1.94
Alaska	9,450	....	9,464	9,464	9,464	0.33
Arizona	56,407	....	57,950	57,950	58,928	2.05
Arkansas	36,527	....	35,809	35,809	35,821	1.25
California	277,135	....	275,593	275,593	274,421	9.55
Colorado	34,772	....	36,014	36,014	36,419	1.27
Connecticut	20,348	....	19,947	19,947	19,835	0.69
Delaware	9,479	....	9,464	9,464	9,464	0.33
District of Columbia	12,633	....	12,618	12,618	12,644	0.44
Florida	154,109	....	152,844	152,844	152,953	5.32
Georgia	76,685	....	92,259	92,259	93,055	3.24
Hawaii	11,255	....	11,053	11,053	10,969	0.38
Idaho	15,725	....	15,868	15,868	16,047	0.56
Illinois	106,346	....	105,254	105,254	104,758	3.64
Indiana	66,226	....	66,660	66,660	66,518	2.31
Iowa	32,387	....	31,156	31,156	31,023	1.08
Kansas	27,642	....	26,929	26,929	26,856	0.93
Kentucky	51,377	....	51,743	51,743	51,756	1.80
Louisiana	43,078	....	56,383	56,383	56,125	1.95
Maine	15,289	....	15,030	15,030	14,917	0.52
Maryland	39,862	....	38,114	38,114	37,914	1.32
Massachusetts	46,478	....	45,530	45,530	45,366	1.58
Michigan	96,240	....	97,347	97,347	96,620	3.36
Minnesota	43,805	....	43,124	43,124	43,062	1.50
Mississippi	42,113	....	41,288	41,288	41,144	1.43
Missouri	61,039	....	62,038	62,038	61,954	2.16
Montana	11,147	....	10,762	10,762	10,809	0.38
Nebraska	17,948	....	17,356	17,356	17,301	0.60
Nevada	15,547	....	17,932	17,932	18,247	0.63
New Hampshire	10,800	....	10,736	10,736	10,682	0.37
New Jersey	54,675	....	55,185	55,185	54,730	1.90
New Mexico	22,861	....	22,685	22,685	22,681	0.79
New York	147,134	....	147,352	147,352	146,515	5.10
North Carolina	88,755	....	92,813	92,813	93,836	3.26
North Dakota	9,342	....	9,464	9,464	9,464	0.33
Ohio	118,397	....	120,401	120,401	119,651	4.16
Oklahoma	40,565	....	40,629	40,629	40,704	1.42
Oregon	35,110	....	35,175	35,175	35,298	1.23
Pennsylvania	125,031	....	121,102	121,102	120,403	4.19
Rhode Island	10,276	....	10,051	10,051	9,935	0.35
South Carolina	50,595	....	50,735	50,735	51,173	1.78
South Dakota	9,518	....	9,464	9,464	9,464	0.33
Tennessee	66,251	....	65,576	65,576	66,105	2.30
Texas	212,142	....	217,750	217,750	219,250	7.63
Utah	26,821	....	28,030	28,030	28,685	1.00
Vermont	9,464	....	9,464	9,464	9,464	0.33
Virginia	63,650	....	62,084	62,084	62,130	2.16
Washington	48,881	....	51,125	51,125	51,258	1.78
West Virginia	25,540	....	25,313	25,313	25,119	0.87
Wisconsin	54,832	....	55,247	55,247	55,250	1.92
Wyoming	8,520	....	9,464	9,464	9,464	0.33
American Samoa	924	....	929	929	921	0.03
Guam	2,052	....	2,878	2,878	2,891	0.10
Northern Mariana Islands	1,126	....	1,160	1,160	1,177	0.04
Puerto Rico	68,548	....	71,021	71,021	70,799	2.46
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,965	....	1,974	1,974	1,962	0.07
Indian Tribes	34,444	....	34,892	34,892	34,892	1.21
Undistributed	....	....	....	....	....	....
Total	**2,837,160**	....	**2,874,043**	**2,874,043**	**2,874,043**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–16. State Children's Health Insurance Program (93.767)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	74,295	....	72,328	72,328	72,328	1.44
Alaska	15,699	....	11,186	11,186	11,186	0.22
Arizona	127,859	....	142,957	142,957	142,957	2.84
Arkansas	49,308	....	47,544	47,544	47,544	0.94
California	790,789	....	789,164	789,164	789,164	15.66
Colorado	71,545	....	71,545	71,545	71,545	1.42
Connecticut	39,891	....	38,810	38,810	38,810	0.77
Delaware	11,058	....	12,760	12,760	12,760	0.25
District of Columbia	11,709	....	12,057	12,057	12,057	0.24
Florida	296,067	....	301,724	301,724	301,724	5.99
Georgia	287,179	....	167,924	167,924	167,924	3.33
Hawaii	15,314	....	15,243	15,243	15,243	0.30
Idaho	24,316	....	23,803	23,803	23,803	0.47
Illinois	390,740	....	208,344	208,344	208,344	4.13
Indiana	93,469	....	97,385	97,385	97,385	1.93
Iowa	50,231	....	33,177	33,177	33,177	0.66
Kansas	36,542	....	36,635	36,635	36,635	0.73
Kentucky	70,115	....	68,237	68,237	68,237	1.35
Louisiana	89,586	....	84,083	84,083	84,083	1.67
Maine	17,161	....	15,450	15,450	15,450	0.31
Maryland	111,401	....	72,403	72,403	72,403	1.44
Massachusetts	153,634	....	73,335	73,335	73,335	1.46
Michigan	149,383	....	147,082	147,082	147,082	2.92
Minnesota	52,819	....	48,613	48,613	48,613	0.96
Mississippi	84,028	....	60,989	60,989	60,989	1.21
Missouri	72,140	....	77,618	77,618	77,618	1.54
Montana	15,736	....	15,922	15,922	15,922	0.32
Nebraska	21,892	....	21,377	21,377	21,377	0.42
Nevada	52,056	....	51,072	51,072	51,072	1.01
New Hampshire	10,779	....	10,657	10,657	10,657	0.21
New Jersey	210,050	....	105,519	105,519	105,519	2.09
New Mexico	52,045	....	52,045	52,045	52,045	1.03
New York	340,807	....	328,680	328,680	328,680	6.52
North Carolina	136,117	....	136,117	136,117	136,117	2.70
North Dakota	7,738	....	7,889	7,889	7,889	0.16
Ohio	157,997	....	157,858	157,858	157,858	3.13
Oklahoma	70,828	....	70,828	70,828	70,828	1.41
Oregon	56,734	....	60,116	60,116	60,116	1.19
Pennsylvania	173,554	....	168,758	168,758	168,758	3.35
Rhode Island	40,939	....	13,958	13,958	13,958	0.28
South Carolina	70,651	....	71,017	71,017	71,017	1.41
South Dakota	10,354	....	10,504	10,504	10,504	0.21
Tennessee	97,460	....	99,842	99,842	99,842	1.98
Texas	557,980	....	556,191	556,191	556,191	11.04
Utah	40,486	....	41,292	41,292	41,292	0.82
Vermont	5,753	....	5,637	5,637	5,637	0.11
Virginia	94,070	....	90,339	90,339	90,339	1.79
Washington	79,883	....	79,883	79,883	79,883	1.58
West Virginia	27,517	....	25,666	25,666	25,666	0.51
Wisconsin	69,715	....	69,563	69,563	69,563	1.38
Wyoming	6,942	....	6,373	6,373	6,373	0.13
American Samoa	630	....	630	630	630	0.01
Guam	1,838	....	1,838	1,838	1,838	0.04
Northern Mariana Islands	578	....	578	578	578	0.01
Puerto Rico	48,090	....	48,090	48,090	48,090	0.95
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,365	....	1,365	1,365	1,365	0.03
Indian Tribes	....	....	....	....	....	....
Undistributed	43,138	....	1,600,000	[1] 1,600,000	[1] 275,000	....
Total	**5,690,000**	....	**6,640,000**	**6,640,000**	**5,315,000**	[2] **100.00**

[1] Includes additional funding appropriated in P.L. 110–173 for States that have projected expenditures in excess of available funding. This funding will be distributed to States according to statute.

[2] Excludes undistributed obligations.

Table 8–17. Grants to States for Medicaid (93.778)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	2,940,192	....	2,854,209	2,854,209	2,902,936	1.31
Alaska	697,380	....	784,273	784,273	829,820	0.38
Arizona	4,624,960	....	5,163,537	5,163,537	5,697,855	2.58
Arkansas	2,440,263	....	2,714,004	2,714,004	2,986,444	1.35
California	22,683,720	....	22,331,784	22,331,784	22,987,211	10.41
Colorado	1,575,252	....	1,686,845	1,686,845	1,749,468	0.79
Connecticut	2,236,684	....	2,381,441	2,381,441	2,484,981	1.13
Delaware	548,117	....	579,951	579,951	629,680	0.29
District of Columbia	1,065,559	....	1,128,518	1,128,518	1,160,444	0.53
Florida	8,531,917	....	8,636,353	8,636,353	8,923,940	4.04
Georgia	4,565,846	....	4,549,510	4,549,510	4,732,392	2.14
Hawaii	704,610	....	645,876	645,876	641,815	0.29
Idaho	838,439	....	868,829	868,829	949,417	0.43
Illinois	7,155,690	....	6,676,912	6,676,912	6,554,010	2.97
Indiana	3,869,405	....	3,785,158	3,785,158	4,006,475	1.81
Iowa	1,707,669	....	1,716,131	1,716,131	1,837,941	0.83
Kansas	1,472,038	....	1,397,881	1,397,881	1,451,626	0.66
Kentucky	3,284,546	....	3,454,644	3,454,644	3,587,128	1.62
Louisiana	3,803,243	....	4,556,003	4,556,003	4,988,758	2.26
Maine	1,484,706	....	1,416,912	1,416,912	1,550,455	0.70
Maryland	2,935,024	....	2,956,354	2,956,354	3,149,359	1.43
Massachusetts	5,820,039	....	5,827,467	5,827,467	6,087,855	2.76
Michigan	5,568,026	....	5,529,730	5,529,730	5,755,101	2.61
Minnesota	3,436,915	....	3,661,427	3,661,427	3,899,054	1.77
Mississippi	2,552,166	....	2,821,625	2,821,625	3,037,716	1.38
Missouri	4,360,484	....	4,852,522	4,852,522	5,351,146	2.42
Montana	543,287	....	528,498	528,498	530,571	0.24
Nebraska	981,488	....	1,010,665	1,010,665	1,078,282	0.49
Nevada	784,490	....	765,079	765,079	761,832	0.35
New Hampshire	651,312	....	688,778	688,778	729,834	0.33
New Jersey	5,022,922	....	4,781,329	4,781,329	4,805,928	2.18
New Mexico	2,100,824	....	2,216,652	2,216,652	2,445,720	1.11
New York	24,142,473	....	25,488,362	25,488,362	26,241,144	11.89
North Carolina	6,721,726	....	6,797,374	6,797,374	7,293,491	3.30
North Dakota	357,941	....	405,574	405,574	406,863	0.18
Ohio	8,055,587	....	8,131,860	8,131,860	8,741,262	3.96
Oklahoma	2,426,504	....	2,642,701	2,642,701	2,597,854	1.18
Oregon	1,988,613	....	2,145,878	2,145,878	2,350,413	1.06
Pennsylvania	9,197,164	....	9,420,349	9,420,349	9,980,814	4.52
Rhode Island	993,167	....	1,003,199	1,003,199	1,060,762	0.48
South Carolina	2,987,929	....	2,969,534	2,969,534	2,990,390	1.35
South Dakota	425,246	....	427,429	427,429	428,339	0.19
Tennessee	4,908,617	....	4,813,880	4,813,880	5,073,891	2.30
Texas	14,379,998	....	13,968,726	13,968,726	14,431,063	6.54
Utah	1,163,571	....	1,097,868	1,097,868	1,130,124	0.51
Vermont	628,688	....	662,876	662,876	671,280	0.30
Virginia	2,737,821	....	2,889,595	2,889,595	3,033,180	1.37
Washington	3,213,924	....	3,279,825	3,279,825	3,376,379	1.53
West Virginia	1,739,467	....	1,799,288	1,799,288	1,870,618	0.85
Wisconsin	2,891,600	....	3,017,857	3,017,857	3,264,916	1.48
Wyoming	248,079	....	251,148	251,148	261,339	0.12
American Samoa	8,290	....	8,831	8,831	8,831	*
Guam	12,484	....	13,645	13,645	13,645	0.01
Northern Mariana Islands	4,574	....	4,851	4,851	4,851	*
Puerto Rico	250,400	....	297,870	297,870	297,870	0.13
Freely Associated States	....	....	....	....	....	....
Virgin Islands	12,445	....	13,795	13,795	12,381	0.01
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Survey & Certification	200,385	....	223,000	223,000	228,798	0.10
Fraud Control Units	174,800	....	186,000	186,000	195,300	0.09
Vaccines for Children	2,735,437	....	2,702,206	2,702,206	2,766,230	1.25
Vaccines for Children Collection	513	....	....	....	....	....
Medicare Part B Transfer	358,675	....	300,000	300,000	....	....
Incurred but Not Reported	1,614,242	....	3,000,000	3,000,000	3,231,000	1.46
Adjustments	−453,530	....	−3,879,712	−3,879,712	520,106	0.24
Total	**205,114,043**	....	**207,052,706**	**207,052,706**	**220,768,328**	[1] **100.00**

* $500 or less or 0.005 percent or less.

[1] Excludes undistributed obligations.

Table 8–18. Temporary Assistance for Needy Families (TANF)—Family Assistance Grants (93.558)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	104,408	....	104,408	104,408	104,408	0.61
Alaska	53,620	....	53,620	53,620	53,620	0.31
Arizona	226,131	....	226,131	226,131	226,131	1.33
Arkansas	62,937	....	62,951	62,951	62,951	0.37
California	3,665,236	....	3,663,779	3,663,779	3,663,779	21.48
Colorado	149,626	....	149,626	149,626	149,626	0.88
Connecticut	261,986	....	266,788	266,788	266,788	1.56
Delaware	31,117	....	32,291	32,291	32,291	0.19
District of Columbia	92,595	....	92,610	92,610	92,610	0.54
Florida	622,746	....	622,746	622,746	622,746	3.65
Georgia	368,025	....	368,025	368,025	368,025	2.16
Hawaii	98,905	....	98,905	98,905	98,905	0.58
Idaho	33,911	....	33,911	33,911	33,911	0.20
Illinois	585,057	....	585,057	585,057	585,057	3.43
Indiana	206,799	....	206,799	206,799	206,799	1.21
Iowa	130,994	....	130,994	130,994	130,994	0.77
Kansas	101,931	....	101,931	101,931	101,931	0.60
Kentucky	181,288	....	181,288	181,288	181,288	1.06
Louisiana	180,999	....	180,999	180,999	180,999	1.06
Maine	78,121	....	78,121	78,121	78,121	0.46
Maryland	229,098	....	229,098	229,098	229,098	1.34
Massachusetts	459,371	....	459,371	459,371	459,371	2.69
Michigan	775,353	....	775,353	775,353	775,353	4.55
Minnesota	263,434	....	263,434	263,434	263,434	1.54
Mississippi	95,803	....	95,803	95,803	95,803	0.56
Missouri	217,052	....	217,052	217,052	217,052	1.27
Montana	39,172	....	39,172	39,172	39,172	0.23
Nebraska	57,769	....	57,514	57,514	57,514	0.34
Nevada	45,928	....	47,641	47,641	47,641	0.28
New Hampshire	38,521	....	38,521	38,521	38,521	0.23
New Jersey	404,035	....	404,035	404,035	404,035	2.37
New Mexico	117,131	....	117,131	117,131	117,131	0.69
New York	2,442,931	....	2,442,931	2,442,931	2,442,931	14.32
North Carolina	338,350	....	338,350	338,350	338,350	1.98
North Dakota	26,400	....	26,400	26,400	26,400	0.15
Ohio	727,968	....	727,968	727,968	727,968	4.27
Oklahoma	147,594	....	145,860	145,860	145,860	0.86
Oregon	166,799	....	166,799	166,799	166,799	0.98
Pennsylvania	719,499	....	719,499	719,499	719,499	4.22
Rhode Island	95,022	....	95,022	95,022	95,022	0.56
South Carolina	99,968	....	99,968	99,968	99,968	0.59
South Dakota	21,280	....	21,280	21,280	21,280	0.12
Tennessee	213,089	....	213,089	213,089	213,089	1.25
Texas	538,965	....	538,965	538,965	538,965	3.16
Utah	83,611	....	84,314	84,314	84,314	0.49
Vermont	47,353	....	47,353	47,353	47,353	0.28
Virginia	158,285	....	158,285	158,285	158,285	0.93
Washington	382,267	....	382,267	382,267	382,267	2.24
West Virginia	110,176	....	110,176	110,176	110,176	0.65
Wisconsin	314,499	....	314,499	314,499	314,499	1.84
Wyoming	18,360	....	18,501	18,501	18,501	0.11
American Samoa	....	....	....	....	....	....
Guam	2,819	....	3,465	3,465	3,465	0.02
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	71,562	....	71,562	71,562	71,562	0.42
Freely Associated States	....	....	....	....	....	....
Virgin Islands	2,847	....	2,847	2,847	2,847	0.02
Indian Tribes	167,748	....	171,487	171,487	171,487	1.01
Undistributed	....	....	....	....	....	....
Tribal New Program	7,551	....	7,633	7,633	7,633	0.04
Responsible Fatherhood	149,962	....	150,000	150,000	150,000	0.88
Territories Matching Fund	....	....	15,000	15,000	15,000	0.09
Total	**17,034,004**	....	**17,058,625**	**17,058,625**	**17,058,625**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–19. Child Support Enforcement—Federal Share of State and Local Administrative Costs and Incentives (93.563)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	44,635	....	42,394	42,394	38,394	1.00
Alaska	18,254	....	17,337	17,337	15,701	0.41
Arizona	66,615	....	63,270	63,270	57,301	1.50
Arkansas	34,264	....	32,543	32,543	29,473	0.77
California	776,584	....	737,586	737,586	667,999	17.46
Colorado	52,353	....	49,724	49,724	45,033	1.18
Connecticut	51,430	....	48,847	48,847	44,238	1.16
Delaware	22,070	....	20,962	20,962	18,984	0.50
District of Columbia	13,509	....	12,831	12,831	11,620	0.30
Florida	221,436	....	210,315	210,315	190,474	4.98
Georgia	87,609	....	83,209	83,209	75,359	1.97
Hawaii	11,038	....	10,484	10,484	9,494	0.25
Idaho	36,653	....	34,812	34,812	31,528	0.82
Illinois	136,680	....	129,816	129,816	117,569	3.07
Indiana	50,678	....	48,133	48,133	43,592	1.14
Iowa	42,103	....	39,988	39,988	36,216	0.95
Kansas	54,516	....	51,778	51,778	46,893	1.23
Kentucky	33,869	....	32,168	32,168	29,133	0.76
Louisiana	66,320	....	62,989	62,989	57,046	1.49
Maine	16,058	....	15,252	15,252	13,813	0.36
Maryland	95,683	....	90,878	90,878	82,304	2.15
Massachusetts	99,930	....	94,911	94,911	85,957	2.25
Michigan	161,464	....	153,355	153,355	138,887	3.63
Minnesota	102,382	....	97,240	97,240	88,067	2.30
Mississippi	41,666	....	39,573	39,573	35,840	0.94
Missouri	48,296	....	45,870	45,870	41,543	1.09
Montana	12,869	....	12,223	12,223	11,070	0.29
Nebraska	32,550	....	30,916	30,916	27,999	0.73
Nevada	33,777	....	32,080	32,080	29,054	0.76
New Hampshire	38,922	....	36,967	36,967	33,479	0.88
New Jersey	181,123	....	172,027	172,027	155,797	4.07
New Mexico	88,955	....	84,487	84,487	76,517	2.00
New York	207,139	....	196,736	196,736	178,175	4.66
North Carolina	84,723	....	80,468	80,468	72,877	1.91
North Dakota	53,336	....	50,657	50,657	45,878	1.20
Ohio	204,888	....	194,598	194,598	176,239	4.61
Oklahoma	46,670	....	44,326	44,326	40,144	1.05
Oregon	80,712	....	76,659	76,659	69,427	1.82
Pennsylvania	141,546	....	134,437	134,437	121,754	3.18
Rhode Island	7,725	....	7,337	7,337	6,645	0.17
South Carolina	43,301	....	41,126	41,126	37,246	0.97
South Dakota	48,192	....	45,772	45,772	41,454	1.08
Tennessee	63,918	....	60,708	60,708	54,980	1.44
Texas	217,289	....	206,377	206,377	186,907	4.89
Utah	43,782	....	41,583	41,583	37,660	0.98
Vermont	45,914	....	43,608	43,608	39,494	1.03
Virginia	71,460	....	67,871	67,871	61,468	1.61
Washington	78,684	....	74,733	74,733	67,682	1.77
West Virginia	21,738	....	20,646	20,646	18,699	0.49
Wisconsin	68,074	....	64,655	64,655	58,556	1.53
Wyoming	8,095	....	7,688	7,688	6,963	0.18
American Samoa	....	....	....	....	....	....
Guam	8,719	....	8,281	8,281	7,500	0.20
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	40,322	....	38,297	38,297	34,684	0.91
Freely Associated States	....	....	....	....	....	....
Virgin Islands	15,429	....	14,654	14,654	13,272	0.35
Indian Tribes	19,653	....	45,000	45,000	61,000	1.59
Undistributed	....	....	....	....	....	....
Total	**4,395,600**	....	**4,201,182**	**4,201,182**	**3,825,078**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–20. Low Income Home Energy Assistance Program (93.568)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	16,673	....	16,673	16,673	14,315	0.84
Alaska	7,418	....	7,418	7,418	6,369	0.37
Arizona	7,451	....	7,451	7,451	6,397	0.38
Arkansas	12,796	....	12,796	12,796	10,986	0.65
California	89,236	....	89,236	89,236	76,617	4.51
Colorado	31,367	....	31,367	31,367	26,932	1.58
Connecticut	40,920	....	40,920	40,920	35,133	2.07
Delaware	5,431	....	5,431	5,431	4,663	0.27
District of Columbia	6,355	....	6,355	6,355	5,456	0.32
Florida	26,527	....	26,527	26,527	22,776	1.34
Georgia	20,979	....	20,979	20,979	18,013	1.06
Hawaii	2,113	....	2,113	2,113	1,814	0.11
Idaho	11,642	....	11,642	11,642	9,995	0.59
Illinois	113,259	....	113,259	113,259	97,243	5.72
Indiana	51,274	....	51,274	51,274	44,023	2.59
Iowa	36,343	....	36,343	36,343	31,204	1.84
Kansas	16,674	....	16,649	16,649	14,295	0.84
Kentucky	26,686	....	26,686	26,686	22,912	1.35
Louisiana	17,144	....	17,144	17,144	14,720	0.87
Maine	25,541	....	25,541	25,541	21,929	1.29
Maryland	31,332	....	31,332	31,332	26,901	1.58
Massachusetts	81,820	....	81,820	81,820	70,250	4.13
Michigan	106,706	....	106,706	106,706	91,617	5.39
Minnesota	77,469	....	77,469	77,469	66,514	3.91
Mississippi	14,350	....	14,350	14,350	12,321	0.72
Missouri	45,240	....	45,240	45,240	38,842	2.28
Montana	11,843	....	11,843	11,843	10,168	0.60
Nebraska	17,963	....	17,958	17,958	15,419	0.91
Nevada	3,809	....	3,809	3,809	3,270	0.19
New Hampshire	15,493	....	15,493	15,493	13,302	0.78
New Jersey	75,798	....	75,798	75,798	65,079	3.83
New Mexico	9,358	....	9,345	9,345	8,023	0.47
New York	247,709	....	247,708	247,708	212,679	12.51
North Carolina	36,319	....	36,319	36,319	31,183	1.83
North Dakota	12,753	....	12,753	12,753	10,949	0.64
Ohio	100,195	....	100,195	100,195	86,026	5.06
Oklahoma	14,004	....	14,000	14,000	12,020	0.71
Oregon	23,744	....	23,744	23,744	20,386	1.20
Pennsylvania	133,273	....	133,273	133,273	114,426	6.73
Rhode Island	13,435	....	13,435	13,435	11,535	0.68
South Carolina	13,318	....	13,318	13,318	11,435	0.67
South Dakota	10,410	....	10,410	10,410	8,938	0.53
Tennessee	27,033	....	27,033	27,033	23,210	1.37
Texas	44,144	....	44,144	44,144	37,902	2.23
Utah	14,285	....	14,285	14,285	12,265	0.72
Vermont	11,613	....	11,613	11,613	9,970	0.59
Virginia	38,166	....	38,166	38,166	32,768	1.93
Washington	38,357	....	38,357	38,357	32,933	1.94
West Virginia	17,660	....	17,660	17,660	15,163	0.89
Wisconsin	69,733	....	69,733	69,733	59,872	3.52
Wyoming	5,626	....	5,626	5,626	4,830	0.28
American Samoa	44	....	44	44	38	*
Guam	96	....	96	96	82	*
Northern Mariana Islands	33	....	33	33	29	*
Puerto Rico	2,381	....	2,381	2,381	2,044	0.12
Freely Associated States	....	....	....	....	....	....
Virgin Islands	91	....	91	91	78	*
Indian Tribes	21,046	....	21,103	21,103	18,118	1.07
Undistributed	....	....	....	....	....	....
Discretionary Funds	27,225	....	27,225	27,225	23,375	1.38
Technical Assistance	293	....	288	288	248	0.01
Total	**1,979,996**	....	**1,980,000**	**1,980,000**	**1,700,000**	[1] **100.00**

* $500 or less or 0.005 percent or less.
[1] Excludes undistributed obligations.

Table 8–21. Child Care and Development Block Grant (93.575)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	40,007	....	39,938	39,938	39,938	1.94
Alaska	4,057	....	4,064	4,064	4,064	0.20
Arizona	50,535	....	51,631	51,631	51,631	2.50
Arkansas	25,026	....	25,551	25,551	25,551	1.24
California	231,863	....	229,338	229,338	229,338	11.12
Colorado	23,765	....	23,919	23,919	23,919	1.16
Connecticut	14,164	....	13,742	13,742	13,742	0.67
Delaware	4,452	....	4,554	4,554	4,554	0.22
District of Columbia	3,168	....	2,885	2,885	2,885	0.14
Florida	114,853	....	112,313	112,313	112,313	5.45
Georgia	78,229	....	80,270	80,270	80,270	3.89
Hawaii	7,768	....	7,269	7,269	7,269	0.35
Idaho	11,655	....	12,026	12,026	12,026	0.58
Illinois	76,570	....	75,188	75,188	75,188	3.65
Indiana	41,430	....	42,047	42,047	42,047	2.04
Iowa	17,655	....	18,275	18,275	18,275	0.89
Kansas	18,509	....	18,834	18,834	18,834	0.91
Kentucky	35,314	....	35,714	35,714	35,714	1.73
Louisiana	45,664	....	42,649	42,649	42,649	2.07
Maine	6,667	....	6,834	6,834	6,834	0.33
Maryland	25,701	....	25,113	25,113	25,113	1.22
Massachusetts	25,406	....	24,755	24,755	24,755	1.20
Michigan	57,741	....	57,162	57,162	57,162	2.77
Minnesota	25,580	....	26,031	26,031	26,031	1.26
Mississippi	31,951	....	32,362	32,362	32,362	1.57
Missouri	38,694	....	38,962	38,962	38,962	1.89
Montana	5,677	....	5,943	5,943	5,943	0.29
Nebraska	11,507	....	11,733	11,733	11,733	0.57
Nevada	14,230	....	14,789	14,789	14,789	0.72
New Hampshire	4,685	....	4,723	4,723	4,723	0.23
New Jersey	36,494	....	35,243	35,243	35,243	1.71
New Mexico	18,281	....	18,456	18,456	18,456	0.90
New York	107,222	....	103,991	103,991	103,991	5.04
North Carolina	66,514	....	67,494	67,494	67,494	3.27
North Dakota	3,679	....	3,784	3,784	3,784	0.18
Ohio	66,959	....	67,654	67,654	67,654	3.28
Oklahoma	31,005	....	31,683	31,683	31,683	1.54
Oregon	22,310	....	22,582	22,582	22,582	1.10
Pennsylvania	62,528	....	62,022	62,022	62,022	3.01
Rhode Island	5,595	....	5,383	5,383	5,383	0.26
South Carolina	36,828	....	36,809	36,809	36,809	1.79
South Dakota	5,412	....	5,514	5,514	5,514	0.27
Tennessee	44,348	....	45,692	45,692	45,692	2.22
Texas	216,536	....	221,872	221,872	221,872	10.76
Utah	22,336	....	22,898	22,898	22,898	1.11
Vermont	2,906	....	2,936	2,936	2,936	0.14
Virginia	39,306	....	38,813	38,813	38,813	1.88
Washington	33,180	....	33,657	33,657	33,657	1.63
West Virginia	13,533	....	13,562	13,562	13,562	0.66
Wisconsin	29,529	....	30,024	30,024	30,024	1.46
Wyoming	2,687	....	2,765	2,765	2,765	0.13
American Samoa	2,606	....	2,536	2,536	2,536	0.12
Guam	4,048	....	4,023	4,023	4,023	0.20
Northern Mariana Islands	1,799	....	1,887	1,887	1,887	0.09
Puerto Rico	34,860	....	33,311	33,311	33,311	1.62
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,858	....	1,865	1,865	1,865	0.09
Indian Tribes	30,399	....	41,242	41,242	41,242	2.00
Undistributed	....	....	....	....	....	....
Technical Assistance	5,122	....	5,155	5,155	5,155	0.25
Research Set-Aside	9,813	....	9,649	9,649	9,649	0.47
Child Care Aware	982	....	965	965	965	0.05
Total	**2,051,198**	....	**2,062,081**	**2,062,081**	**2,062,081**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–22. Child Care and Development Fund—Mandatory (93.596a)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	16,442	....	16,442	16,442	16,442	1.33
Alaska	3,545	....	3,545	3,545	3,545	0.29
Arizona	19,827	....	19,827	19,827	19,827	1.60
Arkansas	5,300	....	5,300	5,300	5,300	0.43
California	85,593	....	85,593	85,593	85,593	6.90
Colorado	10,174	....	10,174	10,174	10,174	0.82
Connecticut	18,738	....	18,738	18,738	18,738	1.51
Delaware	5,179	....	5,179	5,179	5,179	0.42
District of Columbia	4,567	....	4,567	4,567	4,567	0.37
Florida	43,027	....	43,027	43,027	43,027	3.47
Georgia	36,548	....	36,548	36,548	36,548	2.95
Hawaii	4,972	....	4,972	4,972	4,972	0.40
Idaho	2,868	....	2,868	2,868	2,868	0.23
Illinois	56,874	....	56,874	56,874	56,874	4.59
Indiana	26,182	....	26,182	26,182	26,182	2.11
Iowa	8,508	....	8,508	8,508	8,508	0.69
Kansas	9,812	....	9,812	9,812	9,812	0.79
Kentucky	16,702	....	16,702	16,702	16,702	1.35
Louisiana	13,865	....	13,865	13,865	13,865	1.12
Maine	3,019	....	3,019	3,019	3,019	0.24
Maryland	23,301	....	23,301	23,301	23,301	1.88
Massachusetts	44,973	....	44,973	44,973	44,973	3.63
Michigan	32,082	....	32,082	32,082	32,082	2.59
Minnesota	23,368	....	23,368	23,368	23,368	1.89
Mississippi	6,293	....	6,293	6,293	6,293	0.51
Missouri	24,669	....	24,669	24,669	24,669	1.99
Montana	3,191	....	3,191	3,191	3,191	0.26
Nebraska	10,595	....	10,595	10,595	10,595	0.85
Nevada	2,580	....	2,580	2,580	2,580	0.21
New Hampshire	4,582	....	4,582	4,582	4,582	0.37
New Jersey	26,374	....	26,374	26,374	26,374	2.13
New Mexico	8,308	....	8,308	8,308	8,308	0.67
New York	101,981	....	101,981	101,981	101,981	8.23
North Carolina	69,639	....	69,639	69,639	69,639	5.62
North Dakota	2,506	....	2,506	2,506	2,506	0.20
Ohio	70,125	....	70,125	70,125	70,125	5.66
Oklahoma	24,910	....	24,910	24,910	24,910	2.01
Oregon	19,409	....	19,409	19,409	19,409	1.57
Pennsylvania	55,337	....	55,337	55,337	55,337	4.46
Rhode Island	6,634	....	6,634	6,634	6,634	0.54
South Carolina	9,867	....	9,867	9,867	9,867	0.80
South Dakota	1,711	....	1,711	1,711	1,711	0.14
Tennessee	37,702	....	37,702	37,702	37,702	3.04
Texas	59,844	....	59,844	59,844	59,844	4.83
Utah	12,592	....	12,592	12,592	12,592	1.02
Vermont	3,945	....	3,945	3,945	3,945	0.32
Virginia	21,329	....	21,329	21,329	21,329	1.72
Washington	41,883	....	41,883	41,883	41,883	3.38
West Virginia	8,727	....	8,727	8,727	8,727	0.70
Wisconsin	24,511	....	24,511	24,511	24,511	1.98
Wyoming	2,815	....	2,815	2,815	2,815	0.23
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	58,249	....	58,340	58,340	58,340	4.71
Undistributed	....	....	....	....	....	....
Technical Assistance	3,792	....	3,792	3,792	3,792	0.31
Total	**1,239,566**	....	**1,239,657**	**1,239,657**	**1,239,657**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–23. Child Care and Development Fund—Matching (93.596b)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	24,711	....	25,166	25,166	25,166	1.50
Alaska	4,194	....	4,048	4,048	4,048	0.24
Arizona	36,859	....	37,884	37,884	37,884	2.26
Arkansas	15,410	....	15,747	15,747	15,747	0.94
California	222,167	....	217,404	217,404	217,404	12.96
Colorado	27,318	....	26,991	26,991	26,991	1.61
Connecticut	18,682	....	18,140	18,140	18,140	1.08
Delaware	4,457	....	4,616	4,616	4,616	0.28
District of Columbia	2,696	....	2,647	2,647	2,647	0.16
Florida	92,324	....	90,955	90,955	90,955	5.42
Georgia	54,753	....	56,397	56,397	56,397	3.36
Hawaii	6,921	....	6,821	6,821	6,821	0.41
Idaho	8,559	....	9,025	9,025	9,025	0.54
Illinois	74,366	....	73,387	73,387	73,387	4.38
Indiana	36,577	....	35,853	35,853	35,853	2.14
Iowa	15,049	....	15,957	15,957	15,957	0.95
Kansas	15,371	....	15,861	15,861	15,861	0.95
Kentucky	22,378	....	22,725	22,725	22,725	1.35
Louisiana	26,141	....	24,727	24,727	24,727	1.47
Maine	5,971	....	6,084	6,084	6,084	0.36
Maryland	31,642	....	32,568	32,568	32,568	1.94
Massachusetts	32,974	....	30,500	30,500	30,500	1.82
Michigan	56,413	....	55,142	55,142	55,142	3.29
Minnesota	27,667	....	28,338	28,338	28,338	1.69
Mississippi	17,108	....	17,216	17,216	17,216	1.03
Missouri	31,064	....	31,905	31,905	31,905	1.90
Montana	4,482	....	4,818	4,818	4,818	0.29
Nebraska	9,844	....	10,152	10,152	10,152	0.61
Nevada	14,460	....	14,717	14,717	14,717	0.88
New Hampshire	6,598	....	6,488	6,488	6,488	0.39
New Jersey	49,209	....	47,167	47,167	47,167	2.81
New Mexico	11,042	....	11,547	11,547	11,547	0.69
New York	103,030	....	101,483	101,483	101,483	6.05
North Carolina	49,319	....	49,402	49,402	49,402	2.95
North Dakota	3,027	....	3,243	3,243	3,243	0.19
Ohio	62,124	....	62,217	62,217	62,217	3.71
Oklahoma	19,526	....	20,462	20,462	20,462	1.22
Oregon	19,218	....	19,334	19,334	19,334	1.15
Pennsylvania	62,339	....	61,883	61,883	61,883	3.69
Rhode Island	5,487	....	5,278	5,278	5,278	0.31
South Carolina	23,206	....	23,374	23,374	23,374	1.39
South Dakota	4,234	....	4,398	4,398	4,398	0.26
Tennessee	31,693	....	32,765	32,765	32,765	1.95
Texas	147,643	....	151,191	151,191	151,191	9.01
Utah	17,634	....	18,835	18,835	18,835	1.12
Vermont	2,834	....	2,875	2,875	2,875	0.17
Virginia	41,672	....	41,123	41,123	41,123	2.45
Washington	33,401	....	34,303	34,303	34,303	2.05
West Virginia	8,573	....	8,715	8,715	8,715	0.52
Wisconsin	28,832	....	29,245	29,245	29,245	1.74
Wyoming	2,531	....	2,723	2,723	2,723	0.16
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	....	....	....	....	....	....
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Technical Assistance	3,415	....	3,501	3,501	3,501	0.21
Total	[1] **1,677,145**	....	**1,677,343**	**1,677,343**	**1,677,343**	[2] **100.00**

[1] Includes reappropriated funds from prior year.
[2] Excludes undistributed obligations.

Table 8–24. Head Start (93.600)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	107,070	....	106,911	106,911	108,965	1.55
Alaska	12,524	....	12,506	12,506	12,746	0.18
Arizona	103,928	....	103,774	103,774	105,768	1.51
Arkansas	64,793	....	64,697	64,697	65,940	0.94
California	835,096	....	833,854	833,854	849,871	12.10
Colorado	68,621	....	68,519	68,519	69,836	0.99
Connecticut	52,113	....	52,035	52,035	53,035	0.75
Delaware	13,290	....	13,271	13,271	13,526	0.19
District of Columbia	25,211	....	25,174	25,174	25,658	0.37
Florida	264,221	....	263,829	263,829	268,898	3.83
Georgia	169,204	....	168,952	168,952	172,199	2.45
Hawaii	22,981	....	22,946	22,946	23,387	0.33
Idaho	22,908	....	22,874	22,874	23,314	0.33
Illinois	271,880	....	271,477	271,477	276,693	3.94
Indiana	96,597	....	96,454	96,454	98,307	1.40
Iowa	51,762	....	51,685	51,685	52,679	0.75
Kansas	51,137	....	51,061	51,061	52,042	0.74
Kentucky	108,291	....	108,130	108,130	110,208	1.57
Louisiana	146,504	....	146,287	146,287	149,098	2.12
Maine	27,725	....	27,684	27,684	28,216	0.40
Maryland	78,356	....	78,240	78,240	79,743	1.13
Massachusetts	108,797	....	108,636	108,636	110,723	1.58
Michigan	235,518	....	235,168	235,168	239,687	3.41
Minnesota	72,300	....	72,193	72,193	73,580	1.05
Mississippi	162,357	....	162,116	162,116	165,231	2.35
Missouri	119,483	....	119,305	119,305	121,598	1.73
Montana	21,036	....	21,004	21,004	21,408	0.30
Nebraska	36,207	....	36,154	36,154	36,848	0.52
Nevada	24,380	....	24,344	24,344	24,812	0.35
New Hampshire	13,441	....	13,421	13,421	13,679	0.19
New Jersey	129,545	....	129,353	129,353	131,839	1.88
New Mexico	52,515	....	52,437	52,437	53,445	0.76
New York	434,979	....	434,333	434,333	442,679	6.30
North Carolina	141,858	....	141,647	141,647	144,369	2.05
North Dakota	17,246	....	17,220	17,220	17,551	0.25
Ohio	247,915	....	247,547	247,547	252,303	3.59
Oklahoma	81,384	....	81,263	81,263	82,825	1.18
Oregon	59,715	....	59,626	59,626	60,772	0.86
Pennsylvania	229,113	....	228,773	228,773	233,169	3.32
Rhode Island	22,106	....	22,073	22,073	22,497	0.32
South Carolina	82,842	....	82,719	82,719	84,309	1.20
South Dakota	18,903	....	18,875	18,875	19,238	0.27
Tennessee	119,832	....	119,654	119,654	121,954	1.74
Texas	480,685	....	479,971	479,971	489,194	6.96
Utah	37,920	....	37,864	37,864	38,591	0.55
Vermont	13,615	....	13,595	13,595	13,856	0.20
Virginia	99,507	....	99,359	99,359	101,268	1.44
Washington	100,776	....	100,627	100,627	102,560	1.46
West Virginia	50,852	....	50,776	50,776	51,752	0.74
Wisconsin	91,253	....	91,117	91,117	92,868	1.32
Wyoming	12,422	....	12,404	12,404	12,642	0.18
American Samoa	2,159	....	2,156	2,156	2,197	0.03
Guam	2,173	....	2,169	2,169	2,211	0.03
Northern Mariana Islands	1,671	....	1,669	1,669	1,701	0.02
Puerto Rico	250,345	....	249,974	249,974	254,777	3.63
Freely Associated States	....	....	....	....	....	....
Virgin Islands	8,030	....	8,018	8,018	8,172	0.12
Indian Tribes	188,210	....	187,931	187,931	198,442	2.82
Undistributed	....	....	....	....	....	....
Palau	1,339	....	1,337	1,337	1,363	0.02
Migrant Program	287,675	....	287,248	287,248	299,668	4.26
Training and Technical Assistance	175,197	....	174,949	174,949	178,664	2.54
Research and Evaluation	19,793	....	20,000	20,000	20,000	0.28
Program Support	38,590	....	38,590	38,590	42,000	0.60
Total	**6,887,896**	....	**6,877,975**	**6,877,975**	**7,026,571**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–25. Foster Care—Title IV–E (93.658)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	32,825	....	32,090	32,090	31,201	0.70
Alaska	17,010	....	16,629	16,629	16,168	0.36
Arizona	79,411	....	77,634	77,634	75,482	1.69
Arkansas	35,608	....	34,811	34,811	33,846	0.76
California	1,302,354	....	1,273,218	1,273,218	1,237,919	27.74
Colorado	63,983	....	62,551	62,551	60,817	1.36
Connecticut	93,106	....	91,023	91,023	88,500	1.98
Delaware	5,738	....	5,609	5,609	5,454	0.12
District of Columbia	15,926	....	15,570	15,570	15,138	0.34
Florida	152,408	....	148,998	148,998	144,867	3.25
Georgia	51,703	....	50,546	50,546	49,145	1.10
Hawaii	24,157	....	23,616	23,616	22,961	0.51
Idaho	8,830	....	8,633	8,633	8,393	0.19
Illinois	199,759	....	195,289	195,289	189,875	4.25
Indiana	92,549	....	90,478	90,478	87,970	1.97
Iowa	31,556	....	30,850	30,850	29,995	0.67
Kansas	36,283	....	35,471	35,471	34,488	0.77
Kentucky	53,460	....	52,264	52,264	50,815	1.14
Louisiana	49,854	....	48,739	48,739	47,387	1.06
Maine	15,618	....	15,268	15,268	14,845	0.33
Maryland	137,880	....	134,795	134,795	131,058	2.94
Massachusetts	64,838	....	63,387	63,387	61,630	1.38
Michigan	78,191	....	76,442	76,442	74,323	1.67
Minnesota	45,016	....	44,008	44,008	42,788	0.96
Mississippi	10,681	....	10,442	10,442	10,152	0.23
Missouri	61,411	....	60,037	60,037	58,372	1.31
Montana	15,225	....	14,884	14,884	14,471	0.32
Nebraska	18,582	....	18,166	18,166	17,663	0.40
Nevada	29,788	....	29,121	29,121	28,314	0.63
New Hampshire	13,003	....	12,712	12,712	12,360	0.28
New Jersey	67,755	....	66,240	66,240	64,403	1.44
New Mexico	22,705	....	22,197	22,197	21,581	0.48
New York	370,648	....	362,355	362,355	352,310	7.89
North Carolina	83,618	....	81,747	81,747	79,481	1.78
North Dakota	11,617	....	11,357	11,357	11,042	0.25
Ohio	188,383	....	184,168	184,168	179,062	4.01
Oklahoma	42,893	....	41,933	41,933	40,771	0.91
Oregon	55,035	....	53,804	53,804	52,312	1.17
Pennsylvania	378,226	....	369,764	369,764	359,513	8.06
Rhode Island	11,853	....	11,587	11,587	11,266	0.25
South Carolina	22,217	....	21,720	21,720	21,118	0.47
South Dakota	5,152	....	5,037	5,037	4,898	0.11
Tennessee	40,863	....	39,949	39,949	38,841	0.87
Texas	216,800	....	211,949	211,949	206,073	4.62
Utah	19,232	....	18,802	18,802	18,281	0.41
Vermont	10,810	....	10,568	10,568	10,275	0.23
Virginia	88,499	....	86,519	86,519	84,120	1.88
Washington	84,682	....	82,787	82,787	80,492	1.80
West Virginia	40,469	....	39,564	39,564	38,467	0.86
Wisconsin	61,374	....	60,001	60,001	58,338	1.31
Wyoming	1,665	....	1,628	1,628	1,583	0.04
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	7,917	....	7,740	7,740	7,525	0.17
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Technical Assistance	18,506	....	16,303	16,303	14,851	0.33
New Program Option	....	....	....	....	10,000	0.22
Total	**4,687,672**	....	**4,581,000**	[1] **4,581,000**	**4,463,000**	[2] **100.00**

[1] Assumes a lapse of $61 million.
[2] Excludes undistributed obligations.

Table 8–26. Adoption Assistance (93.659)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	8,999	....	9,989	9,989	10,591	0.46
Alaska	7,825	....	8,686	8,686	9,210	0.40
Arizona	48,174	....	53,475	53,475	56,699	2.48
Arkansas	10,775	....	11,961	11,961	12,682	0.55
California	344,878	....	382,819	382,819	405,904	17.76
Colorado	20,887	....	23,186	23,186	24,584	1.08
Connecticut	25,075	....	27,834	27,834	29,512	1.29
Delaware	1,694	....	1,880	1,880	1,993	0.09
District of Columbia	10,493	....	11,648	11,648	12,350	0.54
Florida	59,428	....	65,967	65,967	69,944	3.06
Georgia	38,162	....	42,361	42,361	44,915	1.96
Hawaii	12,449	....	13,819	13,819	14,652	0.64
Idaho	3,875	....	4,301	4,301	4,560	0.20
Illinois	87,306	....	96,913	96,913	102,756	4.50
Indiana	44,593	....	49,500	49,500	52,485	2.30
Iowa	30,594	....	33,960	33,960	36,007	1.58
Kansas	12,867	....	14,283	14,283	15,144	0.66
Kentucky	27,173	....	30,163	30,163	31,982	1.40
Louisiana	15,342	....	17,031	17,031	18,057	0.79
Maine	12,504	....	13,880	13,880	14,717	0.64
Maryland	21,515	....	23,882	23,882	25,322	1.11
Massachusetts	32,518	....	36,097	36,097	38,273	1.67
Michigan	113,213	....	125,670	125,670	133,248	5.83
Minnesota	23,827	....	26,449	26,449	28,044	1.23
Mississippi	5,162	....	5,730	5,730	6,076	0.27
Missouri	32,221	....	35,767	35,767	37,923	1.66
Montana	8,370	....	9,291	9,291	9,851	0.43
Nebraska	8,604	....	9,550	9,550	10,126	0.44
Nevada	9,812	....	10,891	10,891	11,548	0.51
New Hampshire	4,201	....	4,664	4,664	4,945	0.22
New Jersey	35,341	....	39,230	39,230	41,595	1.82
New Mexico	12,627	....	14,016	14,016	14,861	0.65
New York	201,523	....	223,697	223,697	237,185	10.38
North Carolina	33,687	....	37,394	37,394	39,648	1.73
North Dakota	3,685	....	4,091	4,091	4,338	0.19
Ohio	164,831	....	182,967	182,967	193,999	8.49
Oklahoma	23,708	....	26,317	26,317	27,904	1.22
Oregon	31,319	....	34,765	34,765	36,861	1.61
Pennsylvania	108,234	....	120,143	120,143	127,388	5.57
Rhode Island	7,986	....	8,865	8,865	9,400	0.41
South Carolina	15,245	....	16,922	16,922	17,943	0.78
South Dakota	2,848	....	3,162	3,162	3,353	0.15
Tennessee	34,301	....	38,075	38,075	40,371	1.77
Texas	59,941	....	66,537	66,537	70,549	3.09
Utah	7,306	....	8,109	8,109	8,598	0.38
Vermont	7,096	....	7,877	7,877	8,352	0.37
Virginia	14,150	....	15,707	15,707	16,654	0.73
Washington	34,487	....	38,282	38,282	40,590	1.78
West Virginia	13,099	....	14,540	14,540	15,417	0.67
Wisconsin	47,488	....	52,713	52,713	55,892	2.44
Wyoming	694	....	770	770	817	0.04
American Samoa	....	....	....	....	....	....
Guam	....	....	....	....	....	....
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	157	....	174	174	185	0.01
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	....	....	....	....	....
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	**1,942,289**	....	**2,156,000**	**2,156,000**	**2,286,000**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–27. Social Services Block Grant (93.667)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	25,994	....	25,968	25,968	18,330	1.53
Alaska	3,785	....	3,783	3,783	2,671	0.22
Arizona	33,873	....	34,817	34,817	24,577	2.05
Arkansas	15,850	....	15,871	15,871	11,203	0.93
California	206,069	....	205,854	205,854	145,307	12.11
Colorado	26,607	....	26,839	26,839	18,945	1.58
Connecticut	20,020	....	19,789	19,789	13,969	1.16
Delaware	4,811	....	4,819	4,819	3,402	0.28
District of Columbia	3,140	....	3,284	3,284	2,318	0.19
Florida	101,461	....	102,142	102,142	72,100	6.01
Georgia	51,744	....	52,872	52,872	37,322	3.11
Hawaii	7,273	....	7,258	7,258	5,124	0.43
Idaho	8,151	....	8,280	8,280	5,845	0.49
Illinois	72,793	....	72,454	72,454	51,144	4.26
Indiana	35,771	....	35,648	35,648	25,164	2.10
Iowa	16,918	....	16,838	16,838	11,886	0.99
Kansas	15,654	....	15,607	15,607	11,017	0.92
Kentucky	23,802	....	23,749	23,749	16,764	1.40
Louisiana	25,800	....	24,210	24,210	17,090	1.42
Maine	7,537	....	7,462	7,462	5,267	0.44
Maryland	31,941	....	31,708	31,708	22,382	1.87
Massachusetts	36,494	....	36,347	36,347	25,657	2.14
Michigan	57,722	....	57,004	57,004	40,238	3.35
Minnesota	29,274	....	29,175	29,175	20,594	1.72
Mississippi	16,660	....	16,434	16,434	11,600	0.97
Missouri	33,081	....	32,990	32,990	23,287	1.94
Montana	5,336	....	5,334	5,334	3,765	0.31
Nebraska	10,031	....	9,985	9,985	7,048	0.59
Nevada	13,772	....	14,091	14,091	9,946	0.83
New Hampshire	7,471	....	7,424	7,424	5,241	0.44
New Jersey	49,721	....	49,262	49,262	34,773	2.90
New Mexico	10,998	....	11,036	11,036	7,790	0.65
New York	109,815	....	109,010	109,010	76,948	6.41
North Carolina	49,523	....	50,007	50,007	35,299	2.94
North Dakota	3,631	....	3,590	3,590	2,534	0.21
Ohio	65,383	....	64,809	64,809	45,748	3.81
Oklahoma	20,235	....	20,210	20,210	14,266	1.19
Oregon	20,766	....	20,896	20,896	14,750	1.23
Pennsylvania	70,890	....	70,244	70,244	49,584	4.13
Rhode Island	6,138	....	6,028	6,028	4,255	0.35
South Carolina	24,268	....	24,399	24,399	17,223	1.44
South Dakota	4,425	....	4,415	4,415	3,116	0.26
Tennessee	34,008	....	34,097	34,097	24,069	2.01
Texas	130,377	....	132,734	132,734	93,694	7.81
Utah	14,085	....	14,399	14,399	10,164	0.85
Vermont	3,553	....	3,523	3,523	2,487	0.21
Virginia	43,159	....	43,155	43,155	30,462	2.54
Washington	35,861	....	36,113	36,113	25,492	2.12
West Virginia	10,362	....	10,268	10,268	7,248	0.60
Wisconsin	31,575	....	31,374	31,374	22,146	1.85
Wyoming	2,905	....	2,908	2,908	2,053	0.17
American Samoa	49	....	49	49	34	*
Guam	293	....	293	293	207	0.02
Northern Mariana Islands	59	....	59	59	41	*
Puerto Rico	8,793	....	8,793	8,793	6,207	0.52
Freely Associated States	....	....	....	....	....	....
Virgin Islands	293	....	293	293	207	0.02
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	**1,700,000**	....	**1,700,000**	**1,700,000**	**1,200,000**	[1] **100.00**

* $500 or less or 0.005 percent or less.
[1] Excludes undistributed obligations.

Table 8–28. Public Housing Operating Fund (14.850)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	115,805	....	125,658	125,658	128,654	2.99
Alaska	8,261	....	8,963	8,963	9,177	0.21
Arizona	30,074	....	32,633	32,633	33,411	0.78
Arkansas	17,483	....	18,970	18,970	19,423	0.45
California	116,571	....	126,489	126,489	129,505	3.01
Colorado	22,355	....	24,257	24,257	24,835	0.58
Connecticut	65,049	....	70,583	70,583	72,266	1.68
Delaware	9,156	....	9,935	9,935	10,172	0.24
District of Columbia	46,074	....	49,994	49,994	51,186	1.19
Florida	110,518	....	119,921	119,921	122,780	2.86
Georgia	129,754	....	140,793	140,793	144,150	3.35
Hawaii	13,928	....	15,113	15,113	15,474	0.36
Idaho	1,221	....	1,324	1,324	1,356	0.03
Illinois	243,307	....	264,007	264,007	270,302	6.29
Indiana	43,238	....	46,917	46,917	48,035	1.12
Iowa	6,427	....	6,974	6,974	7,140	0.17
Kansas	17,341	....	18,816	18,816	19,265	0.45
Kentucky	53,380	....	57,921	57,921	59,302	1.38
Louisiana	69,154	....	75,037	75,037	76,827	1.79
Maine	11,983	....	13,003	13,003	13,313	0.31
Maryland	83,425	....	90,523	90,523	92,682	2.16
Massachusetts	137,199	....	148,871	148,871	152,421	3.54
Michigan	54,173	....	58,782	58,782	60,184	1.40
Minnesota	48,320	....	52,431	52,431	53,681	1.25
Mississippi	32,699	....	35,481	35,481	36,327	0.84
Missouri	39,738	....	43,119	43,119	44,147	1.03
Montana	4,455	....	4,834	4,834	4,949	0.12
Nebraska	12,391	....	13,445	13,445	13,766	0.32
Nevada	14,710	....	15,961	15,961	16,342	0.38
New Hampshire	10,127	....	10,989	10,989	11,251	0.26
New Jersey	163,875	....	177,818	177,818	182,057	4.23
New Mexico	9,519	....	10,329	10,329	10,575	0.25
New York	891,422	....	967,322	967,322	990,384	23.03
North Carolina	110,101	....	119,468	119,468	122,316	2.84
North Dakota	2,982	....	3,235	3,235	3,312	0.08
Ohio	181,188	....	196,603	196,603	201,291	4.68
Oklahoma	29,415	....	31,917	31,917	32,678	0.76
Oregon	16,112	....	17,483	17,483	17,900	0.42
Pennsylvania	259,365	....	281,432	281,432	288,142	6.70
Rhode Island	27,878	....	30,250	30,250	30,971	0.72
South Carolina	37,647	....	40,850	40,850	41,824	0.97
South Dakota	2,783	....	3,020	3,020	3,092	0.07
Tennessee	97,173	....	105,441	105,441	107,955	2.51
Texas	146,485	....	158,948	158,948	162,738	3.78
Utah	4,582	....	4,972	4,972	5,091	0.12
Vermont	3,604	....	3,911	3,911	4,004	0.09
Virginia	67,904	....	73,682	73,682	75,438	1.75
Washington	36,415	....	39,513	39,513	40,456	0.94
West Virginia	17,233	....	18,699	18,699	19,145	0.45
Wisconsin	21,852	....	23,712	23,712	24,277	0.56
Wyoming	1,402	....	1,522	1,522	1,558	0.04
American Samoa	....	....	....	....	....	....
Guam	3,543	....	3,845	3,845	3,937	0.09
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	145,161	....	157,511	157,511	161,267	3.75
Freely Associated States	....	....	....	....	....	....
Virgin Islands	19,199	....	20,833	20,833	21,329	0.50
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Asset Management	....	....	5,940	5,940	5,940	0.14
Total	**3,865,156**	....	**4,200,000**	[1] **4,200,000**	[1] **4,300,000**	[2] **100.00**

[1] 2008 and 2009 amounts by State assume the same allocations as 2007, and are subject to change.
[2] Excludes undistributed obligations.

Table 8–29. Section 8 Housing Choice Vouchers (14.871)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	145,084	3,167	141,931	145,098	144,605	0.90
Alaska	28,634	625	28,011	28,636	28,539	0.18
Arizona	141,108	3,080	138,040	141,120	140,642	0.88
Arkansas	94,998	2,074	92,933	95,007	94,684	0.59
California	2,914,875	63,637	2,851,517	2,915,154	2,905,258	18.12
Colorado	223,270	4,874	218,417	223,291	222,533	1.39
Connecticut	326,633	7,131	319,533	326,664	325,555	2.03
Delaware	34,461	752	33,712	34,464	34,347	0.21
District of Columbia	153,101	3,342	149,773	153,115	152,596	0.95
Florida	710,715	15,515	695,267	710,782	708,370	4.42
Georgia	401,270	8,760	392,548	401,308	399,947	2.49
Hawaii	94,608	2,065	92,551	94,616	94,296	0.59
Idaho	34,979	764	34,219	34,983	34,864	0.22
Illinois	815,356	17,800	797,633	815,433	812,665	5.07
Indiana	191,925	4,190	187,754	191,944	191,292	1.19
Iowa	91,179	1,991	89,198	91,189	90,878	0.57
Kansas	57,830	1,262	56,573	57,835	57,639	0.36
Kentucky	165,912	3,622	162,305	165,927	165,365	1.03
Louisiana	214,817	4,690	210,148	214,838	214,108	1.34
Maine	76,126	1,662	74,471	76,133	75,875	0.47
Maryland	381,222	8,322	372,936	381,258	379,964	2.37
Massachusetts	798,572	17,433	781,214	798,647	795,937	4.96
Michigan	321,249	7,013	314,266	321,279	320,189	2.00
Minnesota	212,643	4,642	208,021	212,663	211,941	1.32
Mississippi	97,620	2,131	95,498	97,629	97,299	0.61
Missouri	228,358	4,985	223,395	228,380	227,605	1.42
Montana	27,824	607	27,219	27,826	27,732	0.17
Nebraska	59,019	1,288	57,737	59,025	58,825	0.37
Nevada	95,809	2,092	93,726	95,818	95,493	0.60
New Hampshire	74,304	1,622	72,689	74,311	74,059	0.46
New Jersey	629,346	13,739	615,667	629,406	627,270	3.91
New Mexico	75,034	1,638	73,404	75,042	74,787	0.47
New York	1,909,672	41,689	1,868,163	1,909,852	1,903,371	11.87
North Carolina	330,411	7,213	323,230	330,443	329,321	2.05
North Dakota	29,440	643	28,800	29,443	29,342	0.18
Ohio	513,353	11,207	502,194	513,401	511,659	3.19
Oklahoma	125,128	2,732	122,408	125,140	124,715	0.78
Oregon	190,111	4,150	185,979	190,129	189,484	1.18
Pennsylvania	534,239	11,663	522,627	534,290	532,476	3.32
Rhode Island	64,308	1,404	62,911	64,315	64,097	0.40
South Carolina	127,147	2,776	124,383	127,159	126,728	0.79
South Dakota	27,455	599	26,858	27,457	27,364	0.17
Tennessee	172,480	3,765	168,731	172,496	171,912	1.07
Texas	906,681	19,793	886,973	906,766	903,689	5.64
Utah	64,001	1,397	62,610	64,007	63,789	0.40
Vermont	38,035	830	37,208	38,038	37,910	0.24
Virginia	320,130	6,989	313,172	320,161	319,074	1.99
Washington	348,663	7,612	341,084	348,696	347,513	2.17
West Virginia	61,564	1,344	60,226	61,570	61,361	0.38
Wisconsin	142,087	3,102	138,998	142,100	141,618	0.88
Wyoming	10,736	234	10,502	10,736	10,700	0.07
American Samoa	......	......	......	......	......	......
Guam	29,793	650	29,145	29,795	29,695	0.19
Northern Mariana Islands	3,335	73	3,262	3,335	3,324	0.02
Puerto Rico	166,503	3,635	162,884	166,519	165,954	1.04
Freely Associated States	......	......	......	......	......	......
Virgin Islands	11,852	259	11,595	11,854	11,813	0.07
Indian Tribes	......	......	......	......	......	......
Undistributed	......	......	......	......	......	......
Disaster Assistance	258,003	......	......	......	39,000	0.24
Total	**16,303,008**	**350,274**	**15,696,249**	**16,046,523**	**16,031,071**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–30. Public Housing Capital Fund (14.872)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	75,337	4,627	70,538	75,165	58,537	2.91
Alaska	3,059	188	2,864	3,052	2,377	0.12
Arizona	11,531	708	10,797	11,505	8,960	0.45
Arkansas	23,871	1,466	22,351	23,817	18,548	0.92
California	105,423	6,474	98,708	105,182	81,914	4.08
Colorado	15,731	966	14,729	15,695	12,223	0.61
Connecticut	33,375	2,050	31,250	33,300	25,933	1.29
Delaware	6,354	390	5,949	6,339	4,937	0.25
District of Columbia	28,850	1,772	27,013	28,785	22,417	1.12
Florida	72,692	4,464	68,063	72,527	56,483	2.81
Georgia	92,884	5,704	86,968	92,672	72,172	3.59
Hawaii	13,905	854	13,020	13,874	10,804	0.54
Idaho	1,478	91	1,384	1,475	1,148	0.06
Illinois	199,316	12,241	186,621	198,862	154,870	7.71
Indiana	34,735	2,133	32,522	34,655	26,989	1.34
Iowa	6,250	384	5,852	6,236	4,856	0.24
Kansas	14,031	862	13,137	13,999	10,902	0.54
Kentucky	46,308	2,844	43,358	46,202	35,981	1.79
Louisiana	59,647	3,663	55,848	59,511	46,346	2.31
Maine	6,642	408	6,219	6,627	5,161	0.26
Maryland	48,647	2,988	45,549	48,537	37,799	1.88
Massachusetts	71,026	4,362	66,503	70,865	55,188	2.75
Michigan	49,450	3,037	46,301	49,338	38,423	1.91
Minnesota	38,936	2,391	36,456	38,847	30,253	1.51
Mississippi	25,174	1,546	23,571	25,117	19,561	0.97
Missouri	41,771	2,565	39,110	41,675	32,456	1.62
Montana	3,720	228	3,483	3,711	2,890	0.14
Nebraska	10,617	652	9,941	10,593	8,249	0.41
Nevada	8,922	548	8,354	8,902	6,933	0.35
New Hampshire	6,481	398	6,068	6,466	5,036	0.25
New Jersey	90,554	5,561	84,787	90,348	70,362	3.50
New Mexico	7,757	476	7,263	7,739	6,027	0.30
New York	439,508	26,989	394,672	421,661	326,925	16.27
North Carolina	65,521	4,024	61,348	65,372	50,911	2.53
North Dakota	2,737	168	2,562	2,730	2,126	0.11
Ohio	109,341	6,715	102,377	109,092	84,959	4.23
Oklahoma	21,088	1,295	19,745	21,040	16,386	0.82
Oregon	12,401	762	11,611	12,373	9,635	0.48
Pennsylvania	181,920	11,172	170,334	181,506	141,353	7.03
Rhode Island	15,794	970	14,788	15,758	12,272	0.61
South Carolina	28,920	1,776	27,078	28,854	22,471	1.12
South Dakota	3,900	240	3,652	3,892	3,031	0.15
Tennessee	68,302	4,195	63,952	68,147	53,071	2.64
Texas	111,590	6,853	104,483	111,336	86,706	4.31
Utah	3,636	223	3,404	3,627	2,825	0.14
Vermont	3,304	203	3,094	3,297	2,567	0.13
Virginia	58,726	3,607	54,986	58,593	45,631	2.27
Washington	35,149	2,159	32,910	35,069	27,311	1.36
West Virginia	12,248	752	11,468	12,220	9,517	0.47
Wisconsin	21,365	1,312	20,004	21,316	16,601	0.83
Wyoming	1,128	69	1,056	1,125	876	0.04
American Samoa	....	....	....	....	....	....
Guam	1,525	94	1,428	1,522	1,185	0.06
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	144,821	8,894	135,597	144,491	112,527	5.60
Freely Associated States	....	....	....	....	....	....
Virgin Islands	7,467	459	6,991	7,450	5,802	0.29
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Total	**2,604,865**	**159,972**	**2,422,117**	**2,582,089**	**2,009,423**	[1] **100.00**

[1] Excludes undistributed obligations.

Table 8–31. Community Development Block Grants (14.218)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	49,801	....	48,336	48,336	36,765	1.42
Alaska	4,760	....	4,623	4,623	3,516	0.14
Arizona	54,591	....	53,162	53,162	40,436	1.56
Arkansas	27,757	....	26,995	26,995	20,533	0.79
California	471,738	....	455,203	455,203	346,233	13.35
Colorado	38,555	....	37,300	37,300	28,371	1.09
Connecticut	42,118	....	40,850	40,850	31,071	1.20
Delaware	7,272	....	7,034	7,034	5,350	0.21
District of Columbia	18,757	....	18,042	18,042	13,723	0.53
Florida	162,551	....	157,192	157,192	119,562	4.61
Georgia	83,062	....	80,957	80,957	61,577	2.37
Hawaii	15,366	....	14,884	14,884	11,321	0.44
Idaho	12,277	....	11,970	11,970	9,105	0.35
Illinois	176,982	....	170,567	170,567	129,735	5.00
Indiana	70,896	....	68,354	68,354	51,991	2.00
Iowa	41,572	....	40,290	40,290	30,645	1.18
Kansas	28,177	....	27,327	27,327	20,785	0.80
Kentucky	46,029	....	44,684	44,684	33,987	1.31
Louisiana	62,745	....	63,992	63,992	48,673	1.88
Maine	19,961	....	19,399	19,399	14,755	0.57
Maryland	56,070	....	53,959	53,959	41,042	1.58
Massachusetts	110,765	....	107,309	107,309	81,621	3.15
Michigan	133,058	....	127,986	127,986	97,348	3.75
Minnesota	58,621	....	56,698	56,698	43,125	1.66
Mississippi	35,517	....	34,618	34,618	26,331	1.01
Missouri	68,075	....	65,655	65,655	49,938	1.92
Montana	9,285	....	8,984	8,984	6,833	0.26
Nebraska	19,589	....	18,954	18,954	14,417	0.56
Nevada	20,425	....	19,859	19,859	15,105	0.58
New Hampshire	13,340	....	12,951	12,951	9,851	0.38
New Jersey	101,921	....	98,543	98,543	74,953	2.89
New Mexico	21,238	....	20,670	20,670	15,722	0.61
New York	352,789	....	340,605	340,605	259,066	9.99
North Carolina	71,884	....	70,004	70,004	53,246	2.05
North Dakota	6,414	....	6,217	6,217	4,729	0.18
Ohio	163,639	....	158,120	158,120	120,268	4.64
Oklahoma	30,558	....	29,613	29,613	22,524	0.87
Oregon	36,996	....	35,892	35,892	27,300	1.05
Pennsylvania	224,183	....	216,692	216,692	164,819	6.35
Rhode Island	17,315	....	16,805	16,805	12,782	0.49
South Carolina	39,231	....	38,013	38,013	28,913	1.11
South Dakota	8,065	....	7,834	7,834	5,959	0.23
Tennessee	50,540	....	48,859	48,859	37,163	1.43
Texas	257,621	....	250,290	250,290	190,374	7.34
Utah	20,729	....	20,246	20,246	15,399	0.59
Vermont	8,423	....	8,183	8,183	6,224	0.24
Virginia	61,853	....	59,739	59,739	45,438	1.75
Washington	62,051	....	60,072	60,072	45,691	1.76
West Virginia	25,353	....	24,558	24,558	18,679	0.72
Wisconsin	67,446	....	64,867	64,867	49,339	1.90
Wyoming	4,246	....	4,138	4,138	3,147	0.12
American Samoa	954	....	963	963	897	0.03
Guam	2,823	....	2,851	2,851	2,657	0.10
Northern Mariana Islands	1,361	....	1,375	1,375	1,281	0.05
Puerto Rico	111,779	....	108,336	108,336	82,402	3.18
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,792	....	1,811	1,811	1,688	0.07
Indian Tribes	59,400	....	62,000	62,000	57,420	2.21
Undistributed	....	....	....	....	200,000	....
Set-asides [1]	1,584	....	4,570	4,570	8,175	0.32
Earmarks	....	....	205,800	205,800	....	....
Earmarks Rescission	....	....	....	....	....	....
Hurricane Supplemental	....	....	3,000,000	3,000,000	−205,800	−7.93
Total [2]	**3,771,900**	....	**6,865,800**	**6,865,800**	**2,794,200**	[3] **100.00**

[1] Includes transfer to Working Capital Fund (IT). 2008 and 2009 also include set-aside for technical assistance.
[2] Includes Special Purpose Grants/Insular Areas (14.225) and State's Program (14.228).
[3] Excludes undistributed obligations.

Table 8–32. HOME Investment Partnerships Program (14.239)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	24,129	....	23,218	23,218	27,677	1.41
Alaska	4,053	....	3,971	3,971	4,734	0.24
Arizona	24,605	....	23,475	23,475	27,983	1.42
Arkansas	15,267	....	14,870	14,870	17,726	0.90
California	247,348	....	236,777	236,777	282,251	14.35
Colorado	20,875	....	19,872	19,872	23,689	1.20
Connecticut	19,983	....	19,017	19,017	22,669	1.15
Delaware	4,892	....	4,783	4,783	5,702	0.29
District of Columbia	8,732	....	8,459	8,459	10,084	0.51
Florida	76,989	....	73,484	73,484	87,597	4.45
Georgia	40,940	....	39,588	39,588	47,191	2.40
Hawaii	7,386	....	7,147	7,147	8,520	0.43
Idaho	6,637	....	6,361	6,361	7,583	0.39
Illinois	71,862	....	68,792	68,792	82,004	4.17
Indiana	28,946	....	27,647	27,647	32,957	1.68
Iowa	14,378	....	13,791	13,791	16,440	0.84
Kansas	12,970	....	12,441	12,441	14,830	0.75
Kentucky	23,829	....	22,974	22,974	27,386	1.39
Louisiana	29,748	....	28,617	28,617	34,113	1.73
Maine	8,119	....	7,769	7,769	9,261	0.47
Maryland	24,166	....	23,034	23,034	27,458	1.40
Massachusetts	45,238	....	43,309	43,309	51,627	2.63
Michigan	48,503	....	46,485	46,485	55,413	2.82
Minnesota	21,679	....	20,661	20,661	24,629	1.25
Mississippi	16,501	....	15,901	15,901	18,955	0.96
Missouri	29,463	....	28,111	28,111	33,510	1.70
Montana	5,922	....	5,681	5,681	6,772	0.34
Nebraska	8,636	....	8,269	8,269	9,857	0.50
Nevada	11,467	....	11,014	11,014	13,129	0.67
New Hampshire	6,209	....	6,009	6,009	7,163	0.36
New Jersey	46,447	....	44,498	44,498	53,044	2.70
New Mexico	10,529	....	10,083	10,083	12,019	0.61
New York	191,562	....	183,577	183,577	218,834	11.13
North Carolina	38,386	....	37,895	37,895	45,173	2.30
North Dakota	3,593	....	3,513	3,513	4,188	0.21
Ohio	63,545	....	60,661	60,661	72,311	3.68
Oklahoma	19,405	....	18,692	18,692	22,282	1.13
Oregon	20,744	....	19,869	19,869	23,685	1.20
Pennsylvania	71,545	....	69,064	69,064	82,328	4.19
Rhode Island	9,086	....	8,671	8,671	10,336	0.53
South Carolina	18,764	....	18,445	18,445	21,987	1.12
South Dakota	4,086	....	3,928	3,928	4,682	0.24
Tennessee	29,534	....	28,362	28,362	33,809	1.72
Texas	112,075	....	107,795	107,795	128,497	6.53
Utah	8,874	....	8,457	8,457	10,081	0.51
Vermont	4,079	....	3,936	3,936	4,692	0.24
Virginia	32,302	....	32,151	32,151	38,326	1.95
Washington	32,603	....	31,251	31,251	37,253	1.89
West Virginia	12,424	....	12,020	12,020	14,328	0.73
Wisconsin	27,003	....	25,864	25,864	30,831	1.57
Wyoming	3,543	....	3,500	3,500	4,172	0.21
American Samoa	315	....	307	307	358	0.02
Guam	1,303	....	1,267	1,267	1,476	0.08
Northern Mariana Islands	600	....	583	583	680	0.03
Puerto Rico	31,797	....	30,988	30,988	36,939	1.88
Freely Associated States	....	....	....	....	....	....
Virgin Islands	1,164	....	1,131	1,131	1,319	0.07
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Set-asides [1]	52,470	....	65,965	65,965	14,100	0.72
Total	**1,757,250**	....	**1,704,000**	**1,704,000**	**1,966,640**	[2] **100.00**

[1] Includes set-asides for technical assistance and transfer to Working Capital Fund (IT). 2007 and 2008 also include set-aside for Housing Counseling program.
[2] Excludes undistributed obligations.

Table 8–33. Airport Improvement Program (20.106)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	[1] 59,171				43,465	1.58
Alaska	213,350				156,726	5.70
Arizona	68,714				50,477	1.84
Arkansas	40,700				29,898	1.09
California	285,590				209,793	7.63
Colorado	79,379				58,311	2.12
Connecticut	18,346				13,477	0.49
Delaware	11,023				8,098	0.29
District of Columbia						
Florida	[1] 180,530				132,324	4.81
Georgia	98,409				72,291	2.63
Hawaii	36,450				26,776	0.97
Idaho	29,350				21,560	0.78
Illinois	151,591				111,358	4.05
Indiana	53,760				39,492	1.44
Iowa	43,294				31,804	1.16
Kansas	20,090				14,758	0.54
Kentucky	74,338				54,609	1.99
Louisiana	61,948				45,507	1.65
Maine	26,299				19,319	0.70
Maryland	46,504				34,162	1.24
Massachusetts	38,554				28,322	1.03
Michigan	123,737				90,897	3.31
Minnesota	66,083				48,545	1.77
Mississippi	[1] 40,819				29,985	1.09
Missouri	90,746				66,662	2.42
Montana	38,280				28,120	1.02
Nebraska	20,315				14,924	0.54
Nevada	57,916				42,545	1.55
New Hampshire	36,876				27,089	0.99
New Jersey	64,030				47,036	1.71
New Mexico	24,966				18,340	0.67
New York	131,577				96,656	3.51
North Carolina	73,160				53,743	1.95
North Dakota	24,958				18,334	0.67
Ohio	84,929				62,388	2.27
Oklahoma	42,441				31,177	1.13
Oregon	29,775				21,872	0.80
Pennsylvania	115,682				84,980	3.09
Rhode Island	17,450				12,819	0.47
South Carolina	35,035				25,736	0.94
South Dakota	27,587				20,265	0.74
Tennessee	74,342				54,611	1.99
Texas	264,254				194,120	7.06
Utah	39,884				29,299	1.07
Vermont	5,743				4,219	0.15
Virginia	90,697				66,626	2.42
Washington	97,388				71,541	2.60
West Virginia	34,514				25,354	0.92
Wisconsin	42,112				30,935	1.12
Wyoming	24,899				18,290	0.67
American Samoa	7,249				5,325	0.19
Guam	14,879				10,930	0.40
Northern Mariana Islands	78,738				57,841	2.10
Puerto Rico	[1] 14,936				10,973	0.40
Freely Associated States						
Virgin Islands	4,758				3,494	0.13
Indian Tribes						
Undistributed						
Other [2]	113,022	67,275	16,636	83,911	121,802	4.43
Total	**3,691,167**	**67,275**	**16,636**	**83,911**	**2,750,000**	[3] **100.00**

[1] Includes amounts provided in the Department of Defense Appropriations Act of 2006 (P.L. 109–148).
[2] Includes Personnel and related expenses, Small Community Air service, Airport Technology Research, Airport Cooperative Research, and Reimbursable obligations.
[3] Excludes undistributed obligations.

Table 8–34. Highway Planning and Construction (20.205)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	767,386	....	652,727	652,727	656,872	2.00
Alaska	411,574	....	282,067	282,067	300,998	0.91
Arizona	625,445	....	645,075	645,075	610,406	1.85
Arkansas	404,518	....	408,704	408,704	416,556	1.27
California	2,886,155	....	3,027,694	3,027,694	3,162,052	9.61
Colorado	490,246	....	439,113	439,113	446,157	1.36
Connecticut	425,597	....	448,399	448,399	431,018	1.31
Delaware	131,491	....	128,378	128,378	131,930	0.40
District of Columbia	139,394	....	131,278	131,278	133,053	0.40
Florida	1,885,484	....	1,646,927	1,646,927	1,578,592	4.80
Georgia	1,194,996	....	1,189,444	1,189,444	1,162,418	3.53
Hawaii	220,602	....	138,187	138,187	136,530	0.41
Idaho	271,536	....	240,342	240,342	243,503	0.74
Illinois	1,109,584	....	1,116,884	1,116,884	1,142,839	3.47
Indiana	868,506	....	837,222	837,222	836,098	2.54
Iowa	402,325	....	376,024	376,024	360,764	1.10
Kansas	377,662	....	331,623	331,623	333,192	1.01
Kentucky	628,504	....	563,101	563,101	566,296	1.72
Louisiana	848,891	....	525,533	525,533	514,001	1.56
Maine	164,422	....	145,808	145,808	151,612	0.46
Maryland	528,725	....	526,802	526,802	515,479	1.57
Massachusetts	587,717	....	563,444	563,444	541,062	1.64
Michigan	1,052,832	....	949,589	949,589	1,052,965	3.20
Minnesota	592,911	....	516,029	516,029	569,617	1.73
Mississippi	619,132	....	386,730	386,730	391,782	1.19
Missouri	853,843	....	762,557	762,557	774,723	2.35
Montana	366,168	....	307,594	307,594	314,519	0.96
Nebraska	274,878	....	241,810	241,810	243,125	0.74
Nevada	291,086	....	235,089	235,089	213,313	0.65
New Hampshire	166,460	....	148,716	148,716	147,227	0.45
New Jersey	842,596	....	869,636	869,636	850,350	2.58
New Mexico	318,732	....	302,479	302,479	315,597	0.96
New York	1,629,822	....	1,520,182	1,520,182	1,460,951	4.44
North Carolina	952,078	....	926,526	926,526	942,342	2.86
North Dakota	243,813	....	202,566	202,566	205,806	0.63
Ohio	1,316,630	....	1,166,230	1,166,230	1,219,640	3.71
Oklahoma	600,914	....	503,343	503,343	503,944	1.53
Oregon	421,991	....	377,426	377,426	377,013	1.15
Pennsylvania	1,629,520	....	1,505,915	1,505,915	1,452,764	4.41
Rhode Island	191,374	....	169,132	169,132	163,290	0.50
South Carolina	592,659	....	533,175	533,175	525,912	1.60
South Dakota	233,282	....	212,628	212,628	221,063	0.67
Tennessee	724,349	....	705,610	705,610	710,041	2.16
Texas	2,698,316	....	2,676,993	2,676,993	2,679,360	8.14
Utah	303,530	....	234,082	234,082	235,817	0.72
Vermont	170,104	....	136,260	136,260	144,261	0.44
Virginia	819,017	....	856,745	856,745	870,616	2.65
Washington	756,976	....	572,684	572,684	565,539	1.72
West Virginia	433,801	....	352,622	352,622	356,731	1.08
Wisconsin	671,767	....	625,584	625,584	640,579	1.95
Wyoming	236,583	....	210,640	210,640	225,145	0.68
American Samoa	6,030	....	14,180	14,180	14,840	0.05
Guam	217	....	511	511	534	*
Northern Mariana Islands	2,583	....	6,075	6,075	6,358	0.02
Puerto Rico	180,474	....	107,292	107,292	113,399	0.34
Freely Associated States	....	....	....	....	....	....
Virgin Islands	10,814	....	25,434	25,434	26,618	0.08
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	8,489,214	8,489,214	6,491,516	....
Total	**35,576,045**	....	**41,216,051**	**41,216,051**	**39,398,728**	[1] **100.00**

* $500 or less or 0.005 percent or less.
[1] Excludes undistributed obligations.

Table 8–35. Federal Transit Formula Grants and Research (20.507)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from: Previous authority	New authority	Total	FY 2009 (estimated)	FY 2009 Percentage of distributed total
Alabama	43,455	10,394	29,486	39,880	51,645	0.60
Alaska	38,222	10,701	35,628	46,329	63,521	0.74
Arizona	91,462	38,289	60,802	99,091	102,423	1.19
Arkansas	10,563	9,585	17,807	27,392	30,818	0.36
California	1,105,171	292,123	739,828	1,031,951	1,259,897	14.63
Colorado	78,385	9,796	58,466	68,262	97,095	1.13
Connecticut	157,466	62,890	94,399	157,289	152,706	1.77
Delaware	11,418	7,368	10,562	17,929	17,337	0.20
District of Columbia	82,703	63,763	116,607	180,369	196,139	2.28
Florida	314,026	63,722	209,666	273,387	355,886	4.13
Georgia	204,333	43,368	105,763	149,131	187,875	2.18
Hawaii	22,849	7,278	25,586	32,864	45,330	0.53
Idaho	14,529	2,420	11,051	13,471	18,965	0.22
Illinois	449,868	17,277	338,893	356,170	550,281	6.39
Indiana	77,929	22,839	56,608	79,447	97,133	1.13
Iowa	32,911	5,037	22,326	27,363	38,687	0.45
Kansas	20,023	12,751	18,457	31,208	31,583	0.37
Kentucky	31,095	6,915	29,549	36,465	52,252	0.61
Louisiana	68,616	11,760	41,548	53,309	73,439	0.85
Maine	17,336	1,712	9,195	10,908	14,934	0.17
Maryland	132,815	54,795	118,283	173,078	200,785	2.33
Massachusetts	356,277	58,773	216,529	275,302	361,881	4.20
Michigan	114,040	13,920	83,373	97,293	146,156	1.70
Minnesota	103,715	29,092	61,553	90,645	100,635	1.17
Mississippi	20,638	7,505	16,201	23,707	28,284	0.33
Missouri	85,408	15,189	52,672	67,861	92,555	1.07
Montana	17,050	2,165	9,118	11,283	15,491	0.18
Nebraska	8,834	6,592	13,702	20,294	23,290	0.27
Nevada	15,814	38,060	27,502	65,561	44,069	0.51
New Hampshire	11,014	5,133	8,615	13,749	14,370	0.17
New Jersey	609,647	11,552	340,654	352,206	551,467	6.40
New Mexico	38,539	6,652	16,517	23,169	28,541	0.33
New York	1,760,823	137,021	880,490	1,017,511	1,446,237	16.79
North Carolina	74,508	43,156	61,885	105,041	104,978	1.22
North Dakota	5,515	2,621	6,845	9,466	11,402	0.13
Ohio	164,360	27,520	119,416	146,937	205,133	2.38
Oklahoma	27,736	4,143	23,834	27,977	42,058	0.49
Oregon	81,680	4,747	50,443	55,190	82,192	0.95
Pennsylvania	507,636	26,172	247,703	273,874	406,964	4.72
Rhode Island	40,870	3,576	17,137	20,713	28,301	0.33
South Carolina	22,359	14,550	25,917	40,467	46,225	0.54
South Dakota	8,583	1,136	6,889	8,025	11,593	0.13
Tennessee	51,692	15,971	43,374	59,344	74,330	0.86
Texas	347,359	69,400	236,970	306,370	421,278	4.89
Utah	34,647	5,414	31,822	37,236	54,501	0.63
Vermont	14,897	572	4,095	4,667	6,968	0.08
Virginia	132,389	36,216	83,390	119,606	142,858	1.66
Washington	201,307	31,757	126,092	157,848	209,618	2.43
West Virginia	12,453	4,971	14,508	19,479	22,963	0.27
Wisconsin	64,789	12,127	50,461	62,588	89,580	1.04
Wyoming	9,090	1,128	5,519	6,647	9,140	0.11
American Samoa	595	198	307	504	546	0.01
Guam	833	....	688	688	1,157	0.01
Northern Mariana Islands	962	....	786	786	1,422	0.02
Puerto Rico	6,803	59,493	53,403	112,897	84,662	0.98
Freely Associated States	....	....	....	....	....	....
Virgin Islands	....	1,029	899	1,928	1,570	0.02
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Oversight	44,626	4	57,736	57,740	63,248	0.73
Total [1]	**8,002,662**	**1,452,335**	**5,147,555**	**6,599,890**	**8,614,396**	[2] **100.00**

[1] Includes Fixed Guideway Modernization (CFDA 20.500), Metropolitan Planning and State Planning (CFDA 20.505), Formula Program for Non-Urbanized Areas (CFDA 20.509), Elderly and Persons with Disabilities (CFDA 20.513), Job Access and Reverse Commute (CFDA 20.516), and New Freedom Initiative (CFDA 20.521).

[2] Excludes undistributed obligations.

Table 8–36. Universal Service Fund E–Rate (1)

(obligations in thousands of dollars)

State or Territory	FY 2007 Actual	Estimated FY 2008 obligations from:			FY 2009 (estimated)	FY 2009 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	27,567	....	32,836	32,836	33,279	1.94
Alaska	12,809	....	15,256	15,256	15,462	0.90
Arizona	38,914	....	46,351	46,351	8,569	0.50
Arkansas	7,098	....	8,455	8,455	46,977	2.74
California	202,738	....	241,482	241,482	244,744	14.30
Colorado	17,745	....	21,136	21,136	21,421	1.25
Connecticut	16,572	....	19,738	19,738	20,005	1.17
Delaware	1,051	....	1,252	1,252	1,269	0.07
District of Columbia	474	....	565	565	573	0.03
Florida	46,661	....	55,578	55,578	56,329	3.29
Georgia	42,648	....	50,799	50,799	51,485	3.01
Hawaii	1,276	....	1,520	1,520	1,541	0.09
Idaho	2,912	....	3,469	3,469	3,516	0.21
Illinois	59,507	....	70,879	70,879	71,837	4.20
Indiana	21,620	....	25,752	25,752	26,100	1.52
Iowa	8,362	....	9,961	9,961	10,095	0.59
Kansas	10,716	....	12,764	12,764	12,936	0.76
Kentucky	17,017	....	20,270	20,270	20,543	1.20
Louisiana	53,575	....	63,814	63,814	64,676	3.78
Maine	4,793	....	5,710	5,710	5,787	0.34
Maryland	8,664	....	10,320	10,320	10,459	0.61
Massachusetts	22,956	....	27,343	27,343	27,713	1.62
Michigan	29,392	....	35,008	35,008	35,481	2.07
Minnesota	16,663	....	19,848	19,848	20,116	1.18
Mississippi	22,903	....	27,280	27,280	27,649	1.62
Missouri	19,172	....	22,835	22,835	23,144	1.35
Montana	2,646	....	3,152	3,152	3,195	0.19
Nebraska	5,932	....	7,066	7,066	7,161	0.42
Nevada	4,403	....	5,245	5,245	5,316	0.31
New Hampshire	1,271	....	1,513	1,513	1,534	0.09
New Jersey	30,362	....	36,165	36,165	36,653	2.14
New Mexico	23,680	....	28,206	28,206	28,587	1.67
New York	126,778	....	151,007	151,007	153,047	8.94
North Carolina	41,588	....	49,536	49,536	50,205	2.93
North Dakota	4,648	....	5,536	5,536	5,611	0.33
Ohio	53,109	....	63,258	63,258	64,113	3.75
Oklahoma	31,094	....	37,036	37,036	37,536	2.19
Oregon	8,030	....	9,565	9,565	9,694	0.57
Pennsylvania	49,391	....	58,830	58,830	59,625	3.48
Rhode Island	4,783	....	5,698	5,698	5,775	0.34
South Carolina	37,011	....	44,084	44,084	44,679	2.61
South Dakota	4,274	....	5,090	5,090	5,159	0.30
Tennessee	37,919	....	45,166	45,166	45,776	2.67
Texas	149,619	....	178,213	178,213	180,620	10.55
Utah	10,107	....	12,038	12,038	12,201	0.71
Vermont	1,140	....	1,358	1,358	1,376	0.08
Virginia	22,718	....	27,060	27,060	27,425	1.60
Washington	16,190	....	19,284	19,284	19,544	1.14
West Virginia	6,971	....	8,303	8,303	8,415	0.49
Wisconsin	15,375	....	18,314	18,314	18,561	1.08
Wyoming	4,534	....	5,400	5,400	5,473	0.32
American Samoa	....	....	....	....	....	....
Guam	742	....	884	884	896	0.05
Northern Mariana Islands	....	....	....	....	....	....
Puerto Rico	4,114	....	4,900	4,900	4,966	0.29
Freely Associated States	....	....	....	....	....	....
Virgin Islands	5,130	....	6,110	6,110	6,193	0.36
Indian Tribes	....	....	....	....	....	....
Undistributed	....	....	....	....	....	....
Northern Mariana Islands	670	....	795	795	806	0.05
Total [1]	**1,418,034**	....	**1,689,033**	**1,689,033**	**1,711,848**	[2] **100.00**

[1] This program is not included in the Catalog of Federal Domestic Assistance. Amounts exclude funding provided to private schools and libraries.
[2] Excludes undistributed obligations.

9. INTEGRATING SERVICES WITH INFORMATION TECHNOLOGY

As one of the largest users and acquirers of data, information and supporting technology systems in the world, the United States Government continues its efforts to strengthen its capabilities in managing technology and information in order to be the world's leader in information technology. The President proposes to spend nearly $71 billion for Information Technology (IT) and the associated support services. Departments and agencies continue to build upon their successes including their efforts with portfolio management by continuing to focus on results by applying the principles and methods of Earned Value Management (EVM) to achieve improved customer service levels and greater savings.

ACHIEVING RESULTS FOR THE AMERICAN PEOPLE

The Federal government continues to make progress by maximizing its IT investments to deliver program results through the adoption of electronic government management principles and best practices. Departments and agencies continue to focus on:

- Improving service levels to citizens and government decision makers;
- Securing our systems and data;
- Making better purchasing decisions; and
- Reducing duplication and related costs.

This Budget chapter and Table 9–1, "Effectiveness of Agency's IT Management and E-Gov Processes," fulfill the statutory reporting requirement of the Clinger-Cohen Act of 1996. Table 9–1 and other tables referenced in the text are available on-line at *www.budget.gov* or on the CD–ROM with printed versions provided by the Government Printing Office. Other management guidance provided to Federal departments and agencies is included in Table 9–2, "Management Guidance," which accompanies this chapter, and individual guidance memoranda are available at *www.whitehouse.gov/OMB/memoranda.*

Government Performance.—The Federal government has shown improvement over the last year in achieving the goals specifically included in the President's Management Agenda (PMA), for the Expanded Electronic Government (E-Government) initiative. For example, each IT investment must have specific performance targets tied to a specific, significant, beneficial impact for our citizens with performance being defined to deliver measurable results.

The Federal departments and agencies continue to improve in their efforts to guarantee success and results for the taxpayer. There were 585 major investments representing about $27 billion on the "Management Watch List (MWL)," i.e., those IT investment justifications needing improvement in performance measurement, earned value management or system security. Before the start of each fiscal year, agencies are directed to remediate the shortfalls identified prior to expending additional funds. The agencies work to remediate the weaknesses or put measures in place to monitor the progress of an IT investment, which could include multiple projects. If an investment is still on the MWL agencies must describe their plans to manage or mitigate risk before undertaking or continuing development activities related to that investment. As of December 31, 2007, 52 percent of the agencies (14 of 27) had acceptable 2008 business cases. Remaining on last year's MWL, there were 134 business cases valued in 2008 at $8.6 billion from thirteen agencies. Table 9–3, "Management Watch List for FY 08," provides a listing of the 134 business cases by department and agency. The IT projects associated with these investments have been moved to the High Risk List. Table 9–4, "High Risk IT Projects as of September 30, 2007," is a complete listing to date of all High Risk IT projects being monitored by the Office of Management and Budget (OMB) and/or the departments and agencies.

This year, 585 of the 810 2009 major IT investments are on the MWL as of December 31, 2007. See Table 9–5, "Agencies with IT Investments on the Management Watch List." In the evaluation of the departments' and agencies' business cases, the following criteria were used for placing investments on the MWL [Table 9–6, "FY 2009 Exhibit 300 Evaluation Criteria," provides the explanation for numeric evaluation for the business cases]:

- Overall Evaluation of 30 or less;
- Security Evaluation of 3 or less;
- If any other evaluation element has a rating of 2 or less;
- Project Manager Rating mismatched between Exhibit 53 and Exhibit 300;
- Project Manager identified has not been validated as qualified for the Investment as identified on the Exhibit 53;
- Agencies failing to receive a "satisfactory" or better evaluation by the agency IG in their annual Federal Information Security Management Act (FISMA) reports due to OMB on October 1, 2007 for the quality of their C&A process;
- Agencies failing to receive a "satisfactory" or better evaluation by the agency IG in their annual

FISMA reports due to OMB on October 1, 2007 for the quality of their PIA process and the investment requires a PIA;

- The agency is currently red for the Cost/Schedule Performance element of the PMA E-Gov Scorecard; and/or
- Overall Consistency Issue.

OMB will release investments remaining on the MWL in the spring of 2008 for the quarter ending March 31, 2008. Departments and agencies have been provided the specific information regarding the weaknesses for their investments. Many of the investments still need to address security, performance measures, implementation of earned value management and other issues prior to obligating funding in 2009. Table 9–7, "Comparison of the Management Watch List by Fiscal Year," illustrates the analysis of total portfolio including the number of projects on the High Risk List. Table 9–8, "Number of Recurring Investments on the Management Watch List," includes by department and agency the same investments on the MWL since inception.

The "high risk list" approach is separate and distinct from the MWL since it presents oversight authorities with information differing in focus, timing and expected results. It is not designed to replace pre-existing oversight and internal agency processes, but rather to supplement and complement them. The objective of the analysis is to manage the risk associated with the IT projects each quarter to achieve the intended outcomes. Each quarter agencies evaluate and report to OMB on the performance of the high risk projects. These projects are considered *high*-risk, requiring special attention from the highest level of agency management and oversight authorities due to size, complexity, and/or nature of the risk of the project, but are not necessarily *at*-risk.

Unlike the MWL, the high risk list contains a mix of major and non-major systems, as well as discrete projects and programmatic activities. The criteria for inclusion on the high risk list include, but are not limited to: Major systems the agency or OMB deems to be high risk due to a variety of factors, such as:

- high cost;
- complexity;
- high profile political or citizen interest;
- cross-organizational or agency impact or interdependencies with other systems efforts;
- major systems on the MWL at the conclusion of the prior fiscal year and continuing to warrant heightened attention during project execution;
- major systems formally designated as an E-Government or Line of Business (LoB) Shared Service Provider;
- planned or underway E-Government initiative migration projects (which are removed upon completion);
- existing or legacy agency systems retiring once their functionality has been migrated to a common solution (also removed once retired); and
- Program or Program Management Office activities supporting government-wide common solutions.

OMB and agencies monitor the status of projects on the high risk list, and track their progress in establishing goals and performance against cost and schedule baselines.

The Report on Information Technology (IT) Spending for the Federal Government (Exhibit 53) located at *www.whitehouse.gov/OMB*, provides details of the Administration's proposed 2009 IT investments. Related documents on IT security and Electronic Government (E-Government) will also be available at *www.whitehouse.gov/OMB* and will be published in the spring of 2008.

The 2009 proposed IT investments were analyzed for trends and potential duplications across government entities. At about $71 billion, the 2009 Federal IT portfolio represents a 3.8 percent increase over the 2008 President's Budget. The following represents the highlights:

	FY 2007	FY 2008	FY 2009	Percent Change [1]
Major IT Investments	857	840	810	–4%
Not Well Planned and Managed	263	364	535	47%
Well Planned and Managed	594	494	275	–44%

[1] Change from 2008 to 2009.

When duplication across Federal agencies has been identified, the Administration has an ongoing process to bring together the appropriate agencies and help them to consider broad-based approaches to promote inter-agency data sharing and cooperation in building common solutions, rather than maintaining separate investments. Upon migration to common, government-wide solutions, agencies will shut down existing systems—which will not only save money but also free-up resources for agencies to better focus on achieving their missions. These inter-agency taskforces focus on the agency line of business (LoB) rather than a specific technology or investment. The following are the current LoB initiatives underway:

- Case Management;
- Federal Health Architecture;
- Financial Management;
- Human Resources Management;
- Grants Management;
- Information System Security;
- Budget Formulation and Execution;
- IT Infrastructure; and
- Geospatial.

The inter-agency taskforces have driven significant accomplishments for each LoB initiative. The IT Infrastructure (ITI) LoB puts in place a government-wide approach for measuring and optimizing agency infrastructures to enhance cost efficiency/service levels and better enable core agency missions and customer-centric services. The ITI LoB, with the assistance of industry experts, will provide tools and metrics for agencies to leverage in order to optimize their commodity infrastructure cost efficiency/service level metrics. The ITI

LoB will provide tools and metrics in the following areas:

- Desktop/Seat Management and Support;
- Data Centers; and
- Data Networks and Telecommunications.

Accomplishments of this LoB and the remaining LoB initiatives as well as the next steps are included in Table 9–9, “Lines of Business (LoB) Update.”

The Administration continues to leverage government buying power while reducing redundant purchases through the SmartBUY program. Launched in June 2003, the SmartBUY program continues to provide increased cost avoidance savings to Federal agencies through new and existing agreements with commercial software providers. The SmartBUY Office located at the General Services Administration (GSA) continues to manage a total of twenty-five agreements within nine programs. In June 2007, SmartBUY awarded the multiple award agreement in support of OMB policy memorandum, M–06–16, “Protection of Sensitive Agency Information,” which would include data at rest and remote access. These agreements included the ability of the state, local and tribal governments to procure products leveraging the federal government’s buying power and receiving reduced pricing to meet their needs. In October 2007, the Administration broadened the scope of the current SmartBUY agreements to offer cost savings to all U.S. Federal government agencies (including DoD) for volume purchases. This ensures optimal pricing and leverages federal purchasing power. To date, the Federal government has avoided and/or saved more than $600 million dollars ($133 million in 2007) through the use of this program.

In August 2006, OMB released Memorandum 06–22 (M–06–22), *Cost Savings Achieved Through E–Government and Line of Business Initiatives*. M–06–22 asked agencies to identify legacy investments impacted by agency use of an E-Gov or LoB initiative and develop baseline cost estimates for these investments. Going forward, it is expected agencies savings will be realized by the migration of functions from their legacy systems, which can be terminated, to government wide common solutions. Agencies were requested to measure actual costs for the identified investments on an ongoing basis to provide the basis for estimating these savings.

Based on agency-reported estimated costs for 2007 as compared to agency-reported actual costs for the 2007, estimated gross cost savings is approximately $508 million.

2007 Baseline Cost Estimate—Investments Impacted by E-Gov	2007 Actual Costs	2007 Gross Cost Savings
$7,331M	$6,823M	$508M

OMB is continuing to work with agencies to identify additional legacy investments impacted by E-Gov and LoB initiatives.

Government IT Workforce.—With rapid advances in IT, improved program performance is first and foremost driven by the Federal employees who manage the IT projects and portfolios. Qualified project managers and an IT workforce with the necessary skills and competencies help ensure agency investments are well planned and managed.

In 2007, an IT Workforce Assessment Survey was developed and administered by the Chief Information Officers (CIO) Council. Using the survey results, agencies prepared a gap analysis report and improvement plan which identified competencies for improvement, staffing targets, and milestones with specific dates to successfully reach targets established. Agencies submitted plans to Office of Personnel Management (OPM) in June 2007. Progress against these plans is measured and included in the President’s Management Agenda Human Capital Scorecard. As of September 1, 2007, 24 of 25 scorecard agencies have IT professionals on board have:

- met planned skill or competency gap closure milestones; and
- met or are consistently meeting their IT hiring targets.

The table below provides a summary of agency progress toward hiring goals.

	Current Number of Positions Filled	Number of Positions Filled on June 30, 2008
Enterprise Architecture	1,673	1,670
Solutions Architecture	1,457	1,472
IT Security	8,407	8,449
IT Project Management	6,248	6,061
Total	17,785	17,652

Agencies have also made progress in assignment of project managers to major IT investments. As reported by agencies on their 2009 Exhibit 53 submissions, 88 percent of major IT investments have qualified project managers, an increase from approximately 83 percent in agency 2008 submissions.

Going forward, agencies will continue to carry out the actions in their IT gap analysis and improvement plans. In June 2008, agencies will submit a measured results report to OPM comparing projected goals established in 2007 to actual outcomes in 2008.

Securing Government Systems.—The Federal government continues to improve information security performance relative to certification and accreditation rates and testing of security controls and contingency plans. In 2007, the percentage of certified and accredited systems rose from 88 percent to 92 percent. Even greater gains were reported in testing of security controls—from 88 percent of systems to 95 percent of systems—and for contingency plan testing—from 77 percent to 86 percent. Several larger agencies reported especially notable progress regarding these measures, including the National Aeronautics and Space Administration

(NASA), the Department of State, Treasury, and the Department of Defense.

Agencies have also maintained or improved performance relative to Inspector General qualitative assessments of IT security processes. Overall quality of the certification and accreditation processes as determined by agency Inspectors General (IG) increased compared to 2006, with76 percent of agencies reporting “satisfactory” or better processes, up from 60 percent the prior year. 76 percent of agencies also demonstrated they have an effective process in place for identifying and correcting weaknesses using Plans of Action and Milestone (POA&M) management processes.

Departments and agencies progress against their corrective actions plans is measured in the President’s Management Agenda Expanded Electronic Government Scorecard. Agencies report quarterly on their efforts to address IT security weaknesses against key IT security performance measures.

The overall security status and progress in percentage of systems, from 2002 to 2007, is as follows:

(In Fiscal Years)

	2002	2003	2004	2005	2006	2007
Effective Security and Privacy Controls (C&A)	47%	62%	77%	85%	88%	93%
Tested Contingency Plans	35%	48%	57%	61%	77%	86%
Tested Security Controls	60%	64%	76%	72%	88%	95%
Total Systems Reported	7,957	7,998	8,623	10,289	10,595	10,304

The number of agencies where the IG has verified the process exists to remediate IT security weaknesses (POA&M):

FY 2002	N/A (was not required in until FY 2003)
FY 2003	12
FY 2004	18
FY 2005	19
FY 2006	18
FY 2007	19

Additional information and detail concerning the Federal government’s IT security program and agency IT security performance can be found in OMB’s Annual Report to Congress on IT Security. The next such report will be issued by March 1, 2008 and will be made available on OMB’s website.

Protecting Privacy.—In May 2006, the President signed an Executive Order creating the Federal Identity Theft Task Force. The Task Force issued its strategic plan which was submitted to the President. It is available at *http://www.idtheft.gov*. Several of the Task Force’s recommendations address the need to improve data security in the government, improve the agencies’ ability to respond to data breaches, and reduce the risk to personally identifiable information.

In this context, OMB has continued to issue security and privacy policy and advisory memoranda. These memoranda reemphasize agency responsibilities under law and policy regarding protection and safeguard of sensitive personally identifiable information, including information accessed through removable media, and incident reporting. They are included in Table 9–2, “Management Guidance,” and are available at: *www.whitehouse.gov/OMB/memoranda*.

To help ensure safeguard of personally identifiable information, agencies are required to report on several performance metrics related to information privacy. In 2007’s annual FISMA report, agency IGs also provided a qualitative assessment of the quality of the agency’s Privacy Impact Assessment process. The 2007 agency FISMA reports no overall percentage improvement in meeting several key privacy performance measures:

- *Privacy Impact Assessments (PIAs).* In 2007, 84 percent of applicable systems government-wide have publicly posted privacy impact assessments verses the goal of 90 percent.
- *System of Records Notices (SORNs).* In 2007, 83 percent of systems government-wide with personally identifiable information contained in a system of records covered by the Privacy Act have developed, published, and maintained current systems of records notices verses the goal of 90 percent.
- *IG assessment of Quality of agency PIA process.* In 2007, 76 percent of IG’s rated the agency’s PIA process as satisfactory or better. (Two agencies did not complete the assessment due to time constraints, as this metric was added to the annual report requirements only 2 months prior to the report due date.)

Though the overall percent of systems with PIAs and SORNs for those systems require one stayed the same in 2007’s annual FISMA report compared to the 2006 FISMA annual report, it is important to note agencies have increased the number of systems identified as requiring PIAs and SORNS significantly, collectively by more than 500 and 700 systems respectively. Thus to maintain the overall percentage of completion despite a sizable increase in the inventory is indicative of continued progress.

Initiative to Secure Federal Information Systems and Facilities.—Inconsistent agency approaches to facility security and computer security are inefficient and costly, and increase risks to the Federal government. On August 27, 2004, the President issued Homeland Security Presidential Directive 12 (HSPD–12) titled, “Policy for a Common Identification Standard for Federal Employees and Contractors,” to address the recommendation of the 9–11 Commission to improve the security of our federal facilities and information systems. In accordance with HSPD–12, agencies are required to follow specific technical standards and business processes for the issuance of federal credentials including a standardized background investigation to verify employees' and contractors' identities. In October 2006, agencies met the major milestone of their HSPD–12 implementation plans to begin issuance of compliant identification cards.

As of September 2007, departments and agencies had issued HSPD–12 identity credentials to 1 percent of the total workforce. OMB issued additional instructions to improve public reporting of the federal government's progress towards our milestones. As of December 31, 2007, with more accurate reporting from the departments and agencies, the required background investigations for 56 percent of federal employees and 43 percent for contractors have been completed. In accordance with their HSPD–12 implementation plans, by October 27, 2008, agencies are expected to complete background investigations for all existing employees and contractors and have their infrastructure and capabilities in place so they are issuing credentials as standard business practice.

Initiative for Improving Government Networking Capabilities.—In order for the departments and agencies to overcome technical limitations arising from this need to interoperate and support emerging requirements and technologies, the Administration set June 2008 as the date by which all agencies' infrastructure (network backbones) must be IPv6-capable. Since the publication of OMB guidance in August 2005, agencies have been working toward the demonstration of capability to route IPv6 packets within their respective network backbones, to meet the June 2008 mandate. At the same time, the National Institute of Standards and Technology (NIST) has been working toward development of a technical profile and testing infrastructure for longer term product compliance.

The NIST will release a standards profile in March 2008 which will become effective 24 months following its publication date. The profile is a forward looking planning tool for Agencies, IPv6 equipment suppliers, testing laboratories, test equipment suppliers and Accreditation bodies. Since it is vital to protect critical US infrastructure, the technical profile includes sufficient security requirements, including a specification for Network Protection Devices as a first barrier against unauthorized access, and also effective deployment of the latest IP Security (IPsec) specifications, to provide integrity and authentication. In addition, the Federal Acquisition Regulation Council is finalizing language linking identifiable compliant IPv6 products with acquisition regulations.

Making Government Accessible to All.—Agency public websites continue to provide citizens timely information and services. For example, General Services Administration's (GSA's) Office of Citizen Services and Communications manages the operations of USA.gov, which serves as a consolidated gateway to all Federal websites and the information they publish.

Providing access to government information helps ensure a well-informed citizenry, and promotes public participation in agency activities. An example is Regulations.gov, a government-wide website for rulemaking which facilitates public participation in the Federal regulatory process. Regulations.gov allows citizens, business and other government entities to easily find, view, and comment on Federal regulatory action. The portal allows the public to communicate with a wide range of government agencies whose regulations may affect their daily lives. The site acts as a mechanism for the public to have a voice in influencing upcoming Federal regulations.

An E-Rulemaking analysis of Regulations.gov projects the initiative will save the Federal government more than $100 million over a five-year period since agencies will not need to deploy or maintain duplicative electronic comment management systems.

SUCCESSFULLY USING ELECTRONIC GOVERNMENT

The departments and agencies continue to leverage information technologies to make government services available to citizens while ensuring security of those systems, the privacy of the citizen information and the prudent use of taxpayer money. E-Government is about providing direct and measurable results supporting departments' and agencies' mission and goals. For departments and agencies, the benefits will far outweigh the cost of implementation. Increased agency adoption and customer utilization continues to be measured. The expanded availability of government information and the utilization of an increased percentage of transactions between the Federal government and citizens is being measure and made available on line at http://www.egov.gov.

Examples of how the tenets of E-Government are helping to deliver services to the citizen and make the government more effective include:

Department of State

Virtual Presence Posts

State's Virtual Presence Posts (VPPs) are an innovative approach to extend the reach of State Department diplomatic services and consular information to cities and populations not served by physical embassies and consulates. The VPPs use information technology to deliver services cost-effectively, without the risks and challenges of staffing additional overseas posts. Currently, 41 VPPs are in operation in all regions of the world. These VPP web sites are designed to serve both local country residents and US citizens. VPP sites connect Americans and foreign nationals at the government to government, government to foreign national, and American citizen to foreign national levels. They provide a variety of services tailored to local requirements by the country team. These services usually include consular information, web-based engagement (through web chats and online forums) and other limited services.

State regularly tracks the activities of VPP and tracks the number of visits to each of these sites. The VPPs are a highly leveraged and cost-effective mechanism for promoting US interests and engaging local populations around the world. The Department's Human Resources Bureau estimates to maintain a single US Foreign Service Officer costs at least $1 million annually, including $400,000 for employee costs. Establishing a Virtual Presence Post (VPP), costs approximately $10,000 for the website, $1,000 for annual hosting, and approximately $10,000 for Embassy visits to that city.

The VPPs using web technologies assist those with visual or mobility disabilities to access USG information. VPP websites are section 508 compliant and are easily accessible from anywhere internet access is available; homes, public locations such as American Corners, Binational Centers and internet cafes. This wide availability can be especially helpful to those who face difficulties in traveling to the nearest embassy or consulate. While The VPP program has been managed through State's capital planning as a minor investment it is following State department's processes and procedures to ensure the VPP's deliver their intended benefits to the communities.

Department of Housing and Urban Development

National Housing Locator Service

When disaster occurs, emergency response agencies and staff need flexible, innovative tools to quickly address basic human needs such as housing, food, and medical services. The Department of Housing and Urban Development (HUD), in support of FEMA, State and Local Housing Authorities, and other First Responders, launched the intergovernmental National Housing Locator Service (NHLS) website in January 2007. The NHLS is an accessible, searchable, web-based clearinghouse of over 200,000 rental housing vacancies available nationwide for emergency use.

In less than a year, the NHLS has come to represent a new model for quickly developing information applications to address HUD's strategic requirements and allows HUD to interoperate easily with other government organizations. Prior to this solution, government housing agencies and first responders would manually, over the course of weeks, collect, compile, and verify vacancy information from multiple agency legacy systems and on-line sources one by one. With NHLS, there is now one streamlined business process supported by state-of-the-art technology delivering quality data, day or night.

The move to the NHLS citizen-centric, one-stop portal is transforming the housing locator process and is realizing cost savings through the efficiencies achieved by reducing the housing locator process from weeks to seconds. This modern approach to application development allows HUD to invest incrementally in the program, in response to real-world requirements that evolve quickly in step with the nation's disaster-response capabilities.

The Administration continues the focus of the department and agency specific services movement to citizen-centered services. Overall funding for the President's E-Government initiatives has reduced annually since 2004 as the initiatives have met their milestones and have become incorporated into the daily operations of Federal departments and agencies. This reduction has come as result of moving the initiatives to fee-for-service models where appropriate, thereby eliminating the need for agency contributions. Chapter 9, Table 9–10, "Status of the Presidential E-Government Initiatives," provides an update for each project.

CONTINUING TO ACHIEVE RESULTS

In 2009 and beyond, the Federal government will continue to identify IT opportunities for collaboration and consolidation while improving services. The Federal government has huge potential and opportunities for growth and to ensure program success and results through the effective use of information technology. In the coming year, each department and agency will leverage existing capabilities to the maximum potential while ensuring reliability, security, privacy and continuity of services. Key milestones will be achieved by the departments and agencies to strengthen their information resources programs. The deployment of the Federal Desktop Core Configuration in conjunction with IPv6, optimization of infrastructure in particular limiting external access points (Trusted Internet Connections initiative) with authorized access to physical and logical systems (HSPD–12 credentials) are all being realized in 2008. The institution of the management practices along with the strengthened infrastructure within each department and agency and throughout the government will ensure these results. GSA in conjunction with OMB will work with the Chief Information Officers (CIO) Council and individual departments' and agencies' CIOs to put into place a program to assess the policy uptake. This program will assist the CIO to ensure clear results are being demonstrated to achieve the outcome of improved information assurance, optimization of resources and performance levels. By completing these initiatives, the departments and agencies will be able to continue to improve their program and mission delivery and evolve their services into the next generation, Web 2.0 services.

10. FEDERAL DRUG CONTROL FUNDING

Table 10–1. Federal Drug Control Funding, FY 2007–2009[1]

(Budget authority, in millions of dollars)

Department/Agency	Enacted 2007	Enacted 2008	2009 Request
Department of Defense:[2]	1,329.8	1,177.4	1,060.5
Department of Education:	495.0	431.6	218.1
Department of Health and Human Services:			
Centers for Medicare and Medicaid Services	....	45.0	265.0
Indian Health Service	148.2	173.2	162.0
National Institute on Drug Abuse	1,000.0	1,000.7	1,001.7
Substance Abuse and Mental Health Services Administration	2,443.2	2,445.8	2,370.6
Total HHS	3,591.4	3,664.7	3,799.3
Department of Homeland Security:			
Counternarcotics Enforcement	2.5	2.7	4.0
Customs and Border Protection	1,968.5	2,130.9	2,191.9
Immigration and Customs Enforcement	422.8	412.3	428.9
U.S. Coast Guard	1,080.9	1,004.3	1,071.0
Total DHS	3,474.7	3,550.2	3,695.8
Department of Interior:			
Bureau of Indian Affairs	2.6	6.3	6.3
Total DOI	2.6	6.3	6.3
Department of Justice:			
Bureau of Prisons	65.1	67.2	69.2
Drug Enforcement Administration	1,969.1	2,105.3	2,181.0
Interagency Crime and Drug Enforcement	497.9	497.9	531.6
Office of Justice Programs	245.5	222.8	114.2
Total Department of Justice	2,777.6	2,893.2	2,896.0
ONDCP:			
Counterdrug Technology Assessment Center	20.0	1.0	5.0
Operations	26.8	26.4	26.8
High Intensity Drug Trafficking Area Program	224.7	230.0	200.0
Other Federal Drug Control Programs	193.0	164.3	189.7
Total ONDCP	464.5	421.7	421.5
Department of State/International Affairs:[3]			
Bureau of Int'l Narcotics and Law Enforcement Affairs	1,055.7	646.8	1,173.2
Economic Support and Development Assistance	239.0	363.6	315.2
Total Department of State/International Affairs	1,294.7	1,010.4	1,488.4
Department of Treasury:			
Internal Revenue Service	55.6	57.3	59.2
Department of Veterans Affairs:			
Veterans Health Administration	354.1	447.2	465.0
Other Priorities:[4]	3.9	3.7	3.7
Total Federal Drug Budget	**$13,843.9**	**$13,663.7**	**$14,113.8**

[1] Detail may not add due to rounding.

[2] To determine fiscal controls, the Department of Defense rolls over unobligated supplemental funding into the next fiscal year; therefore, the supplemental amounts listed here will not match DoD budget justification material. Of the $150.5 million appropriated in the FY 2006 supplemental for Afghanistan efforts, $86.9 million was allocated in FY 2006 and $63.6 million was allocated in FY 2007. Of the $254.7 million appropriated in the FY 2007 supplemental for Afghanistan efforts, $139.1 million was allocated in FY 2007, and $115.6 was allocated in FY 2008. The FY 2008 Omnibus provided $192.6 million for Afghanistan efforts.

[3] The pending FY 2008 GWOT Supplemental includes an additional $385.1M in State Department narcotics funding to support the Merida Initiative. These funds are not included in the FY 2008 enacted total reported for the State Department.

[4] Includes (1) the Small Business Administration's Drug-Free Workplace grants, and (2) the Department of Transportation National Highway Traffic Safety Administration's Drug Impaired Driving Program.

11. CALIFORNIA–FEDERAL BAY–DELTA PROGRAM BUDGET CROSSCUT (CALFED)

The California-Federal Bay-Delta program (also known as CALFED) is a cooperative effort of the Federal Government, the State of California, local Governments, and water users, to proactively address the water management and aquatic ecosystem needs of California's Central Valley. This valley, one of the most productive agricultural regions of the world, is drained by the Sacramento River in the north and the San Joaquin River in the south. The two rivers meet southwest of Sacramento, forming the Sacramento-San Joaquin Delta, and drain west into San Francisco Bay.

The extensive development of the area's water resources has significantly boosted agricultural production, but has also adversely affected the region's ecosystems. CALFED participants recognized the need to provide a safe, clean, reliable source of water for multiple uses, while at the same time restoring or maintaining the ecosystems of the area and protecting against floods. This recognition resulted in the 1994 Bay-Delta Accord, which laid the foundation for the CALFED program. CALFED's adaptive management approach to water resources development and management seeks to balance achievement among the program's four objectives: Water Supply Reliability, Levee System Integrity, Water Quality, and Ecosystem Restoration. The program integrates science and monitoring into program management to track progress toward achieving those goals. The parties signed a Record of Decision in 2000, spelling out the different program components and goals.

In 2004, the President signed the Calfed Bay-Delta Authorization Act (P.L. 108–361) into law. This Act, authorizing funding and activities for the CALFED program through 2010, provides new programmatic authority for participating agencies, authorizes $395 million to be appropriated for the Federal share of CALFED activities, and specifies criteria for program cost-shares and achieving balanced implementation of CALFED program components. Federal agencies contributing to CALFED goals include: the Department of the Interior's Bureau of Reclamation, Fish and Wildlife Service, and U.S. Geological Survey; the Department of Agriculture's Natural Resources Conservation Service; the U.S. Army Corps of Engineers; the Department of Commerce's National Oceanic and Atmospheric Administration; and the Environmental Protection Agency.

The Budget includes a crosscut of estimated Federal funding by each of the CALFED agencies, fulfilling the reporting requirements of P.L. 108–361. The *Analytical Perspectives* volume also contains a table with further detail as part of supplemental material that is available on the Internet and as a CD-ROM in the printed document.

CALFED–RELATED FEDERAL FUNDING BUDGET CROSSCUT

Federal Fiscal Years 1998–2009

(Dollars in millions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bureau of Reclamation	153.37	114.67	138.51	79.75	103.32	74.21	75.74	81.10	99.83	101.34	96.05	76.09
Corps of Engineers	100.69	103.34	93.79	54.19	58.23	57.83	72.64	52.31	91.29	87.44	42.82	20.95
Natural Resources Conservation Service	....	14.54	12.85	16.95	39.08	39.00	48.75	36.39	34.64	26.86	36.00	26.00
NOAA Fisheries	0.30	0.38	0.45	0.55	0.58	0.78	0.78	0.78	0.78	0.50	0.53	0.53
Geological Survey	3.16	3.16	4.32	5.37	5.09	4.91	4.89	5.42	5.18	4.08	3.73	3.73
Fish & Wildlife Service	0.94	1.14	3.65	18.23	5.61	11.19	13.68	8.91	10.74	7.53	1.45	1.45
Environmental Protection Agency	3.20	3.05	57.26	53.38	54.26	20.69	62.78	97.65	36.56	36.13	0.46	[1] N/A
Total:	**261.66**	**240.28**	**310.82**	**228.41**	**266.15**	**208.60**	**279.25**	**282.56**	**279.00**	**263.87**	**181.04**	**128.74**

[1] Estimate not available.

ECONOMIC ASSUMPTIONS AND ANALYSES

12. ECONOMIC ASSUMPTIONS

The U.S. economy completed its sixth consecutive year of economic expansion as 2007 drew to a close.[1] Although some uncertainty exists about the short-run outlook, the Administration's economic forecast projects sustained growth in the years ahead. Since 2001, the U.S. economy has repeatedly demonstrated its resilience to shocks and setbacks while benefiting from pro-growth policies, including tax relief and ongoing efforts to promote investment in innovative technologies and to liberalize international trade. Federal Reserve monetary policy actions have also played a constructive role in prolonging the expansion.

The economy has successfully overcome a series of shocks, including large declines in the stock market and business equipment spending; the terrorist attacks of September 11, 2001 followed by the onset of the Global War on Terror; sharp increases in prices for crude oil; and substantial damage and disruptions during the 2005 hurricane season. In the last two years a new set of shocks has troubled the economy. A housing market slowdown began in 2006 and is continuing into 2008. In 2007, many high-risk mortgages went into default, causing losses at financial institutions. The heightened uncertainty resulting from these losses has threatened to curtail credit availability for many borrowers.

Despite these unfavorable recent events, the U.S. economy continued to expand in 2007, with gains in productivity, incomes, and employment. More than 8 million net new payroll jobs have been added since August 2003. The Administration's economic forecast projects that the current expansion will continue, providing a solid foundation of sustained non-inflationary real growth to underlie the Federal budget outlook. Nonetheless, facing mixed economic signals and the risk of slower economic growth, in January 2008 the President called for the enactment of an economic growth package to bolster business investment and consumer spending thus promoting growth and job creation.

Recent Economic Performance

At the end of 2007, as the 2009 Budget was being prepared, U.S. real gross domestic product (GDP) had been increasing for 24 consecutive quarters, at an average annual rate of 2.8 percent. Over the most recent four quarters, real GDP also grew 2.8 percent. Increases in employment and gains in the productive efficiency of the U.S. workforce have combined to generate this sustained growth in real output.

- In labor markets, nonfarm payroll employment has increased by nearly 8.4 million net new jobs since the post-recession low in August 2003, with about 1.3 million of those job gains occurring during the most recent twelve months (through December).
- Reflecting the expanding job market, the unemployment rate was 5.0 percent at the end of 2007, which is up from its low point in March—4.4 percent—but noticeably lower than its average during each of the past three decades.
- Labor productivity gains—the increase in output per hour of labor—were especially strong earlier in the expansion, providing a substantial boost to growth in real GDP. On average, output per hour in the nonfarm business sector has increased at a 2.5 percent rate during the current expansion (since the final quarter of 2001).[2]
- These productivity gains have extended the strong productivity performance of the previous decade. Since the end of 1995, labor productivity in the nonfarm business sector has increased at a 2.6 percent average annual rate, more than a percentage point higher than the average growth rate from 1973 to 1995—1.5 percent.

Strong growth in labor productivity is a fundamental building block for long-term economic performance and is the basis for rising real wages and an increasing standard of living for American workers and families.

- Reflecting labor gains from stronger productivity growth, real hourly earnings of production workers have risen at an average annual rate of 0.5 percent over the past two years.
- Real disposable personal income per capita is up 11.7 percent in the current expansion, compared with 8.6 percent during the equivalent period of the 1990s expansion.

Other indicators also point to the sustained solid performance of the U.S. economy in recent years:

- Through the third quarter, real consumer spending had increased at a 2.6 percent annual rate so far in 2007, following increases of 3.4 percent during 2006 and 2.8 percent during 2005.
- Business investment in nonresidential structures continued to make strong real gains in 2007, rising at a 16 percent annual rate through the third quarter of the year, on track to being the strongest increase in more than two decades.
- Real business investment in durable equipment and software increased at a healthy 3.7 percent annual rate through the third quarter of 2007, following increases of 2.5 percent during 2006 and 7.1 percent during 2005.

[1] Economic performance is discussed in terms of calendar years. Budget figures are in terms of fiscal years.

[2] The nonfarm business sector accounts for about three-fourths of the value of GDP, with households, nonprofit institutions, and government accounting for the remainder. The nonfarm business sector serves as the reference standard for productivity.

- Real net exports continued to improve during 2007 as real exports grew 9.0 percent at an annual rate through the third quarter, while import growth slowed to just 1.8 percent. For the first time in over a decade, real net exports contributed positively to real GDP growth in 2006–2007.

Although the overall performance of the U.S. economy has been good and the gains have translated into solid growth of income and wealth, the economy faces important challenges that have become more serious as 2008 begins:

- *The housing market* and residential investment activity began to slow in 2006 and continued to fall throughout 2007, subtracting significantly from real GDP growth. Housing starts peaked at an annual rate of nearly 2.3 million units early in 2006, but have since fallen to about 1.0 million units—the lowest level in over a decade. During the first three quarters of 2007, real residential investment spending was on track to subtract about 0.9 percentage point from overall real GDP growth. It now appears that the effects of the housing slump on real GDP growth will persist into 2008, holding down growth and delaying the expected rebound in activity.
- *Financial uncertainty* has increased as the effects of the housing slump spread to the subprime segment of the mortgage market, and then to financial markets more generally. The Federal Reserve has acted decisively to expand credit and to lower interest rates, and the Department of Treasury has also taken steps to restore confidence. These measures have helped maintain liquidity, but uncertainty remains high. Higher risk premiums on all but the most secure loans may exact a growth penalty in the near term that would be moderated by the President's proposals to promote economic growth.
- *Energy prices*—notably crude oil and gasoline prices—have increased sharply. The benchmark price for West Texas Intermediate crude oil increased from under $30 a barrel in September 2003 to near $100 a barrel in January 2008. Over the same period, the average retail price of gasoline nationwide rose from around $1.50 a gallon to over $3.00 a gallon. Higher energy prices slow growth, but the recent increase in prices has had a much smaller overall effect on growth than previous oil price shocks in the 1970s and 1980s.
- *Large imbalances in U.S. international accounts* persisted into 2007 with the current account deficit at 5.1 percent of GDP in the third quarter. Even so, the international imbalances have begun to improve for the first time in several years. A year earlier the current account deficit was 6.6 percent of GDP.

During 2007, the economy continued to grow in the face of these challenges. Growth appears to have slowed in the final quarter of 2007 as the combination of weak housing markets, financial uncertainty, and higher energy prices have combined to limit demand. There are positive factors, however, that could help offset these negative developments and provide a foundation for revived growth by the end of 2008, especially if augmented by passage of the President's proposals to promote economic growth.

- *Inflation* has increased along with the rise in food and energy prices, but *core inflation,* excluding the volatile food and energy components, subsided from around 2.6 percent in 2006 to 2.4 percent during 2007. With core inflation under control the prospects are good for a lower inflation rate in the long run when energy prices stabilize.
- *Faster economic growth abroad* has helped U.S. exports, and contributed to the decline in the current account deficit. The improvement in net exports has been large enough to offset the decline in growth from housing investment over the last four quarters.
- *Employment* growth slowed in 2007, but gains continued through the end of the year. The unemployment rate crept up from 4.5 percent to 5.0 percent, but unemployment remains well below its average level in earlier periods of slow growth.

Policy Background

The fiscal and monetary policies of the past seven years contributed to good economic performance. Looking back, timely tax relief and reductions in interest rates promoted the economy's recovery from recession and helped the Nation overcome the adverse effects from the various shocks it has faced since 2001. Those policies augmented by short-term proposals to promote economic growth continue to provide a solid foundation for future economic performance.

Fiscal Policy: Beginning in 2001, the Administration proposed, and the Congress enacted, significant tax relief designed to promote recovery in output, income, and jobs—and to provide a strong basis for continued economic expansion in the long term. Key tax relief legislation included:

- *The Economic Growth and Tax Relief and Reconciliation Act of 2001* lowered marginal income tax rates; reduced the marriage tax penalty; and created a new, lower 10 percent tax bracket, among other changes.
- *The Jobs and Growth Tax Relief Reconciliation Act of 2003* lowered income tax rates, reduced the marriage penalty, raised the child tax credit, and raised the exemption amount for the individual Alternative Minimum Tax. The Act also reduced tax rates on dividend income and capital gains and expanded bonus depreciation and small business expensing of equipment purchases.

Additional legislation of recent years extended tax relief, helping to ensure that key provisions would continue and not expire. The quick adoption of an effective growth package of broad-based tax relief would bolster consumption and investment and help keep instability and uncertainty from causing additional harm to the overall economy.

Monetary Policy and Interest Rates: As 2008 begins, the Federal Reserve has oriented monetary policy toward sustaining non-inflationary real economic growth. Beginning in 2004, as the expansion strengthened, the Federal Reserve raised the Federal funds rate in a steady series of increases from 1 percent eventually reaching 5.25 percent in 2006. The Federal funds rate remained at 5.25 percent for over a year. In September 2007, the Federal Reserve announced a fifty basis point reduction in its target rate in response to the threats to liquidity unfolding in financial markets. This was a preemptive action intended to maintain the level of aggregate demand in the economy and sustain the recovery. At the time of this action, the Federal Reserve stated:

> Economic growth was moderate during the first half of the year, but the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally. Today's action is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time.

Since then, the Federal Reserve has lowered interest rates further. The Administration's forecast for interest rates, presented below, is consistent with market expectations for the interest rate outlook at the time the forecast was completed in mid-November. It anticipates that rates will gradually recover when the current financial situation stabilizes. Long-term interest rates, notably the yield on 10-year Treasury notes, have been low by historical standards for many years. The 10-year rate has been less than 5.0 percent, except for brief intervals, for seven years. The forecast anticipates that the yield spread between short-term and long-term rates will eventually widen.

Trade and Regulatory Policies and Competitiveness Initiatives: The Administration has sought to advance a comprehensive set of policies to promote the short- and long-term performance of the U.S. economy, including trade and regulatory policies and initiatives aimed at boosting competitiveness in domestic and international markets. Expanding opportunities in international trade and investment has been one of the Administration's top priorities. Efforts to negotiate and implement bilateral, regional, and multilateral agreements to promote international trade and investment with countries around the world are intended to create and expand markets for U.S. exports and strengthen the U.S. economy while also creating new economic opportunities for our trading partners. These policies will also help to alleviate poverty in the developing world and promote democratic reform. The Administration's American Competitiveness Initiative is targeted at advancing U.S. competitiveness through promoting technological innovation, opening new markets, increasing research in the physical sciences and engineering, and protecting intellectual property. Efforts also continue to streamline and simplify Federal regulations that can hinder economic growth and job creation.

Economic Projections

The Administration's economic projections are summarized in Table 12–1. The assumptions are based on information available as of mid-November 2007 and are close to those of the Congressional Budget Office and the consensus of private-sector forecasters, as shown in Table 12–2 and discussed in more detail below.

Real GDP, Potential GDP, and Unemployment Rate: Real GDP, which is estimated to have increased 2.7 percent during 2007 on a fourth quarter-over-fourth quarter basis, is also projected to increase 2.7 percent this year. This is somewhat below the economy's potential growth rate and reflects the growth penalty exacted by the housing slowdown and the energy price runup. As a result, the unemployment rate is projected to average 4.9 percent in 2008, up from 4.6 percent in 2007. In 2009, the rate of growth is projected to recover to 3.0 percent, and the unemployment rate to settle in on its long-run level of 4.8 percent, which is near the center of the range thought to be consistent with stable inflation. Beyond 2009, growth slows gradually as slower labor force growth lowers the economy's potential growth rate.

The main sources of growth in demand in coming years are likely to be net exports, business investment, and, to a lesser extent, consumer spending. The contributions to overall growth from residential investment and the government sector are expected to be modest, although beyond 2008, housing should cease to be a negative influence on growth.

Potential growth of real GDP (including the government sector) is projected to be about 3.0 percent over the next two years, trending down to 2.8 percent by 2013, because of an expected slowing in labor force growth. The labor force is projected to grow about 0.9 percent per year on average from 2006 through 2009, slowing to about 0.6 percent per year on average during 2009–2013 as increasing numbers of baby boomers retire.

Trend productivity growth in the nonfarm business sector is assumed to be 2.5 percent per year. This is equal to the average pace of productivity growth so far in the current expansion, which began in the final quarter of 2001, and equal to the average pace of growth from 1995 through 2000. It is also not far from the average growth rate throughout the post-World War II period since the end of 1948—2.2 percent.

Inflation: Inflation was volatile in 2007, in large part because of fluctuations in energy prices. With the projected easing of these prices, inflation is likely to be lower. On a year-over-year basis, the CPI is projected to have increased 2.8 percent in 2007 and to increase by 2.7 percent this year but to settle down at a 2.3 percent rate in 2010 through 2013. This infla-

Table 12–1. ECONOMIC ASSUMPTIONS [1]

(Calendar years; dollar amounts in billions)

	Actual 2006	Projections						
		2007	2008	2009	2010	2011	2012	2013
Gross Domestic Product (GDP):								
Levels, dollar amounts in billions:								
Current dollars	13,195	13,837	14,480	15,215	15,987	16,782	17,603	18,462
Real, chained (2000) dollars	11,319	11,573	11,886	12,245	12,615	12,982	13,351	13,727
Chained price index (2000=100), annual average	116.6	119.6	121.8	124.2	126.7	129.3	131.8	134.5
Percent change, fourth quarter over fourth quarter:								
Current dollars	5.4	5.1	4.8	5.1	5.0	5.0	4.9	4.9
Real, chained (2000) dollars	2.6	2.7	2.7	3.0	3.0	2.9	2.8	2.8
Chained price index (2000=100)	2.7	2.3	2.0	2.0	2.0	2.0	2.0	2.0
Percent change, year over year:								
Current dollars	6.1	4.9	4.6	5.1	5.1	5.0	4.9	4.9
Real, chained (2000) dollars	2.9	2.2	2.7	3.0	3.0	2.9	2.8	2.8
Chained price index (2000=100)	3.2	2.6	1.9	2.0	2.0	2.0	2.0	2.0
Incomes, billions of current dollars:								
Corporate profits before tax	1,806	1,896	1,920	1,971	1,970	1,947	1,950	1,981
Wages and salaries	6,018	6,405	6,710	7,057	7,434	7,824	8,217	8,623
Other taxable income [2]	2,858	3,053	3,247	3,450	3,630	3,776	3,917	4,102
Consumer Price Index: [3]								
Level (1982–84=100), annual average	201.6	207.3	212.8	217.3	222.3	227.4	232.6	238.0
Percent change, fourth quarter over fourth quarter	2.0	3.9	2.1	2.2	2.3	2.3	2.3	2.3
Percent change, year over year	3.2	2.8	2.7	2.1	2.3	2.3	2.3	2.3
Unemployment rate, civilian, percent:								
Fourth quarter level	4.5	4.8	4.9	4.8	4.8	4.8	4.8	4.8
Annual average	4.6	4.6	4.9	4.9	4.8	4.8	4.8	4.8
Federal pay raises, January, percent:								
Military [4]	3.1	2.7	3.5	3.4	NA	NA	NA	NA
Civilian [5]	3.1	2.2	3.5	2.9	NA	NA	NA	NA
Interest rates, percent:								
91-day Treasury bills [6]	4.7	4.4	3.7	3.8	4.0	4.1	4.1	4.1
10-year Treasury notes	4.8	4.7	4.6	4.9	5.1	5.2	5.3	5.3

NA = Not Available.
[1] Based on information available as of November 15, 2007.
[2] Dividends, rent, interest and proprietors' income components of personal income.
[3] Seasonally adjusted CPI for all urban consumers.
[4] Percentages apply to basic pay only; percentages to be proposed for years after 2009 have not yet been determined.
[5] Overall average increase, including locality pay adjustments. Percentages to be proposed for years after 2009 have not yet been determined.
[6] Average rate, secondary market (bank discount basis).

tion rate projection extends the generally well-contained inflation experience of the last decade. The GDP price index is projected to have increased 2.6 percent in 2007, and to moderate to 2.0 percent by 2009, slightly less than the projected rate of CPI inflation, which is the usual pattern.

The low inflation projection reflects the low core rate of inflation in 2007, well-contained inflation expectations, and the maintenance of low inflation in the long run consistent with Federal Reserve monetary policy objectives.

Interest Rates: Interest rates declined sharply in the second half of 2007. Short-term rates are projected to remain below 4 percent for the next two years and then to rise to 4.1 percent in 2011. The yield on the 10-year Treasury note has also fallen as investors have sought the security of Treasury debt during the recent period of heightened financial uncertainty. In the projection period, long-term rates rise again as financial concerns are alleviated and a more normal historical relationship is restored. The 10-year rate is projected to increase to 5.3 percent by 2012.

These forecast rates are historically low, reflecting lower inflation in the forecast. After adjusting for inflation, the projected real interest rates are close to their historical averages.

Income Shares: The share of labor compensation in GDP was low by historical standards in 2007 and is expected to increase, while the share of corporate profits is projected to decline from the unusually high levels it has reached. So far in the current expansion, the growth of hourly compensation adjusted for inflation has lagged the growth of productivity. During the projection period, however, real hourly labor compensation is expected to exceed productivity growth, which would raise the labor share in GDP back closer to its historical average, while constraining profits.

While the overall share of labor compensation is expected to increase by about 1 percentage point of GDP, the wage share is expected to rise proportionately less than the share of supplements to wages and salaries. Rising health insurance costs will put upward pressure on the share of supplements while holding down the expected rise in the cash wage share.

Corporate profits before tax have risen sharply as a share of GDP since their recent low point in 2001. Profits have benefited from lower interest rates and moderate wage growth. The sharp increase in productivity growth in 2001–2003 also gave a boost to profits. More recently, corporate earnings overseas have helped raise the profits of American corporations. Some of these factors are not likely to continue at the same pace in future years, and profits relative to GDP are expected to moderate over the forecast period, ending much closer to their historical average in 2013.

Comparison with CBO and Private-Sector Forecasts

In addition to the Administration, the Congressional Budget Office (CBO) and many private-sector forecasters also make economic projections. CBO develops its projections to aid Congress in formulating budget policy. In the executive branch, this function is performed jointly by the "Troika" consisting of the Department of Treasury, the Council of Economic Advisers, and the Office of Management and Budget. Private-sector forecasts are often used by businesses for current decision-making and in long-term planning, and the "consensus" or average serves as a useful benchmark for comparison. Table 12–2 compares the 2009 Budget assumptions with projections as of January 2008 by CBO and by the Blue Chip Consensus, an average of about 50 private-sector forecasts.

The three sets of economic assumptions are based on different underlying assumptions concerning economic policies. The Administration forecast generally assumes that the President's Budget proposals will be enacted. In contrast, the CBO baseline projection assumes that current law as of the time the estimates are made remains unchanged. The 50 or so private forecasters in the Blue Chip Consensus make differing policy assumptions. Despite these differences, the three sets of economic projections, shown in Table 12–2, are fairly close. The similarity of the Budget's economic projections to both the CBO baseline projections and the Consensus forecast underscores the conservative nature of the Administration forecast.

Table 12–2. COMPARISON OF ECONOMIC ASSUMPTIONS

(Calendar years)

	Projections						Average, 2008–13
	2008	2009	2010	2011	2012	2013	
GDP (billions of current dollars):							
2009 Budget	14,480	15,215	15,987	16,782	17,603	18,462	
CBO January	14,330	14,997	15,812	16,651	17,453	18,243	
Blue Chip Consensus January [2]	14,448	15,150	15,906	16,705	17,551	18,428	
Real GDP (chain-weighted): [1]							
2009 Budget	2.7	3.0	3.0	2.9	2.8	2.8	2.9
CBO January	1.7	2.8	3.5	3.4	2.9	2.6	2.8
Blue Chip Consensus January [2]	2.2	2.7	2.8	2.9	2.9	2.8	2.7
Chain-weighted GDP Price Index: [1]							
2009 Budget	1.9	2.0	2.0	2.0	2.0	2.0	2.0
CBO January	1.9	1.8	1.8	1.8	1.9	1.9	1.8
Blue Chip Consensus January [2]	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Consumer Price Index (all-urban): [1]							
2009 Budget	2.7	2.1	2.3	2.3	2.3	2.3	2.3
CBO January	2.9	2.3	2.2	2.2	2.2	2.2	2.3
Blue Chip Consensus January [2]	2.9	2.3	2.3	2.3	2.3	2.3	2.4
Unemployment rate: [3]							
2009 Budget	4.9	4.9	4.8	4.8	4.8	4.8	4.8
CBO January	5.1	5.4	5.1	4.8	4.8	4.8	5.0
Blue Chip Consensus January [2]	5.0	5.0	4.8	4.8	4.8	4.8	4.9
Interest rates: [3]							
91-day Treasury bills:							
2009 Budget	3.7	3.8	4.0	4.1	4.1	4.1	4.0
CBO January	3.2	4.2	4.6	4.7	4.7	4.7	4.3
Blue Chip Consensus January [2]	3.4	3.9	4.5	4.5	4.5	4.5	4.2
10-year Treasury notes: [3]							
2009 Budget	4.6	4.9	5.1	5.2	5.3	5.3	5.1
CBO January	4.2	4.9	5.2	5.2	5.2	5.2	5.0
Blue Chip Consensus January [2]	4.3	4.8	5.2	5.2	5.2	5.2	5.0

Sources: Congressional Budget Office; Blue Chip Economic Indicators, Aspen Publishers, Inc.
[1] Year-over-year percent change.
[2] January 2008 Blue Chip Consensus forecast for 2008 and 2009; Blue Chip October 2007 long-run extension for 2010–2013.
[3] Annual averages, percent.

The biggest differences in the forecasts are for real GDP growth in 2008. The Administration, CBO, and the Blue Chip Consensus all anticipate slow to moderate growth this year, but the Administration projects 2.7 percent growth on a year-over-year basis, while the Consensus projects 2.2 percent growth, and CBO forecasts a 1.7 percent growth rate. For calendar year 2009, the forecasts are closer. The Administration forecasts 3.0 percent real growth, while the Consensus forecast is for 2.7 percent and CBO expects 2.8 percent. In 2010–2011, the Administration expects growth to average 3.0 percent, while the Consensus projects an average of 2.9 percent. For this period, CBO is the outlier, expecting a relatively sharp bounce-back that pushes up the growth rate to an average of 3.5 percent. In the final two years of the forecast period, the Administration expects growth to slow with the decline in the potential growth rate as the baby-boom cohort begins to retire in large numbers. CBO also expects the growth rate to decline for this reason (and because they assume a negative effect from the current-law expiration of the 2001–2003 tax cuts), but so far the Consensus has not incorporated the likely demographic slowdown in its long-range projections. Over the six-year span as a whole, the Administration, CBO, and the Consensus all project average annual growth rates in a narrow range of 2.7 to 2.9 percent, with the Administration forecast being the highest.

The three inflation forecasts are much closer. All three forecasts anticipate a slowdown in inflation in 2008–2009 followed by continued low inflation in the range of 1.8 to 2.1 percent as measured by the GDP price index and between 2.2 and 2.3 percent as measured by the CPI. CBO has a lower forecast than the Administration and the Consensus. The three unemployment rate projections are also similar with projected rates converging on 4.8 percent following somewhat higher unemployment over the next 2 to 3 years. All three forecasts recognize the sharp decline in Treasury interest rates at the end of 2007. All three forecasts anticipate that long-term rates will rise between 2008 and 2009 and converge on a higher level in 2011 and beyond. That long-term stable value is 5.2 percent for CBO and the Consensus and 5.3 percent for the Administration. There are more differences in the forecasts of short-term interest rates. The Administration expects lower short-term rates to persist for some time before rising to 4.1 percent. CBO and the Consensus expect short-term rates to rise to 4.7 percent and 4.5 percent, respectively, within three years. This would elevate real short-term interest rates above their historical average and in combination with the long-term interest rate forecasts would generate a tightly compressed yield curve. The Administration forecast anticipates a gradual restoration of a more normal yield curve spread.

Changes in Economic Assumptions

The economic assumptions underlying this Budget for 2009 are similar to those of the 2008 Budget, as shown in Table 12–3.

Real GDP growth is now expected to be 2.2 percent in 2007, 2.7 percent in 2008, and 3.0 percent in 2009 on a year-over-year basis, moderating gradually to 2.8 percent by 2012 and 2013. In comparison, last year's Budget projections implied 2.6 percent real growth for 2007, 3.0 percent growth in 2008, 3.1 percent in 2009, and moderating to 2.9 percent by 2012. The lower real growth forecast in this year's budget combined with a slightly lower inflation forecast lowers the projected level of nominal GDP compared with the 2008 Budget projection.

The long-run unemployment rate projection is unchanged from the 2008 Budget at 4.8 percent. The 3-month Treasury bill rate is expected to remain well below last year's forecast for most of the projection period but to end at the same place, 4.1 percent. The 10-year Treasury note rate is again projected to rise to 5.3 percent.

Structural and Cyclical Balances

An alternative budget measure called the structural balance provides a useful perspective on the stance of fiscal policy compared with the unadjusted budget balance. The unadjusted balance is affected by the cyclical performance of the economy. When the economy operates below potential, the unemployment rate exceeds the long-run sustainable average consistent with price stability. As a result, receipts are lower and outlays for unemployment-sensitive programs (such as unemployment compensation and food stamps) are higher than they would be if all the resources were employed at their normal levels; and the deficit is larger (or the surplus smaller) than if the unemployment rate were at its sustainable long-run average. The portion of the deficit (or surplus) that can be traced to this factor is called the cyclical component. The remaining portion of the deficit is then called the structural deficit (or structural surplus). It represents the deficit that would prevail if all resources were employed at their normal long-run levels. The structural balance provides a gauge of the surplus or deficit that would persist if the economy were operating at the sustainable level of unemployment.

Estimates of the structural balance are based on the historical relationship between changes in the unemployment rate and real GDP growth, known as "Okun's Law," as well as relationships of unemployment and real GDP growth with receipts and outlays. These estimated relationships take account of the major cyclical changes in the economy and their effects on the budget, but they do not reflect all possible cyclical relationships. For example, the sharply rising stock market during the second half of the 1990s boosted capital gains-related receipts and pulled down the deficit. The subsequent fall in the stock market reduced receipts and added to the deficit. Some of this rise and fall was cyclical in nature, but economists have not been able to pin down the cyclical component of the stock market exactly, and for that reason, all of the stock market's

Table 12–3. COMPARISON OF ECONOMIC ASSUMPTIONS IN THE 2008 AND 2009 BUDGETS

(Calendar years; dollar amounts in billions)

	2007	2008	2009	2010	2011	2012	2013
Nominal GDP:							
2008 Budget assumptions [1]	13,903	14,665	15,458	16,265	17,094	17,946	18,840
2009 Budget assumptions	13,837	14,480	15,215	15,987	16,782	17,603	18,462
Real GDP (2000 dollars):							
2008 Budget assumptions [1]	11,623	11,975	12,346	12,718	13,100	13,484	13,878
2009 Budget assumptions	11,573	11,886	12,245	12,615	12,982	13,351	13,727
Real GDP (percent change): [2]							
2008 Budget assumptions	2.6	3.0	3.1	3.0	3.0	2.9	2.9
2009 Budget assumptions	2.2	2.7	3.0	3.0	2.9	2.8	2.8
GDP price index (percent change): [2]							
2008 Budget assumptions	2.5	2.3	2.2	2.1	2.0	2.0	2.0
2009 Budget assumptions	2.3	2.0	2.0	2.0	2.0	2.0	2.0
Consumer Price Index (percent change): [2]							
2008 Budget assumptions	2.1	2.6	2.5	2.4	2.3	2.3	2.3
2009 Budget assumptions	2.8	2.7	2.1	2.3	2.3	2.3	2.3
Civilian unemployment rate (percent): [3]							
2008 Budget assumptions	4.6	4.8	4.8	4.8	4.8	4.8	4.8
2009 Budget assumptions	4.6	4.9	4.9	4.8	4.8	4.8	4.8
91-day Treasury bill rate (percent): [3]							
2008 Budget assumptions	4.7	4.6	4.4	4.2	4.1	4.1	4.1
2009 Budget assumptions	4.4	3.7	3.8	4.0	4.1	4.1	4.1
10-year Treasury note rate (percent): [3]							
2008 Budget assumptions	5.0	5.1	5.2	5.3	5.3	5.3	5.3
2009 Budget assumptions	4.7	4.6	4.9	5.1	5.2	5.3	5.3

[1] Adjusted for July 2007 NIPA revisions.
[2] Year-over-year.
[3] Calendar year average.

contribution to receipts is counted in the structural balance.

No two business cycles are alike and some factors unique to the current economic cycle also appear to affect the deficit in ways not reflected in the usual cyclical adjustments. The fall-off in labor force participation, from 67.1 percent of the U.S. population in 1997–2000 to 66.1 percent in 2004–2007, may be at least partly cyclical in nature. Since the official unemployment rate does not include workers who have left the labor force, the conventional measures of potential GDP, incomes, and Government receipts understate the extent to which potential work hours have been underutilized in the current expansion because of the decline in labor force participation.

Another factor in the current cycle is the fall-off in the wage and salary share of GDP, from 49.2 percent in 2000 to 46.0 percent in 2007 (through the third quarter). This change may also be at least partly cyclical. Since Federal tax collections depend heavily on wage and salary income, the decline in the wage share of GDP suggests that the true cyclical component of the deficit could be understated for this reason as well.

There are also lags in the collection of tax revenue that can delay the impact of cyclical effects beyond the year in which they occur. The result is that even after the unemployment rate has fallen, receipts may remain cyclically depressed for some time until these lagged effects have dissipated.

For all these reasons, the current estimates of the level of the cyclical deficit are probably understated. The current unemployment gap is near zero, and the Administration forecasts that it will rise only slightly and temporarily, but in the broader sense discussed above, the cyclical gap is likely to be larger.

Table 12–4. ADJUSTED STRUCTURAL BALANCE

(Fiscal years; in billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Unadjusted surplus or deficit (–)	128.2	–157.8	–377.6	–412.7	–318.3	–248.2	–162.0	–410.0	–407.4	–160.0	–94.8	48.0	29.3
Cyclical component	39.4	–85.1	–127.2	–82.1	–32.0	15.0	15.4	–12.6	–12.4	–2.6	–0.1	....	....
Structural surplus or deficit (–)	88.8	–72.7	–250.3	–330.7	–286.4	–263.2	–177.4	–397.4	–395.0	–157.4	–94.7	48.0	29.3
Deposit insurance outlays	1.6	1.0	1.4	2.0	1.4	1.1	1.5	1.9	3.5	5.2	5.4	5.6	5.3
Adjusted structural surplus or deficit (–)	87.2	–71.7	–248.9	–328.7	–285.0	–262.1	–175.9	–395.5	–391.6	–152.3	–89.3	53.7	34.7

NOTE: The NAIRU is assumed to be 4.8%.

During fiscal year 2001 the unemployment rate appears to have been lower than could be sustained in the long run. Therefore, as shown in Table 12–4, in that year the structural surplus was smaller than the actual surplus, which was enlarged by the boost to receipts and the reduction in outlays associated with the low level of unemployment. Similarly, in 2006 and 2007 the unemployment rate appeared to be slightly lower than the "natural rate," rendering the structural deficit for those years slightly higher than the actual deficit. For 2008–2009, the unemployment rate is slightly higher than the "natural rate," and the structural deficit falls slightly below the actual deficit.

Sensitivity of the Budget to Economic Assumptions

Both receipts and outlays are affected by changes in economic conditions. This sensitivity complicates budget planning because errors in economic assumptions lead to errors in the budget projections. It is therefore useful to examine the implications of possible changes in economic assumptions. Many of the budgetary effects of such changes are fairly predictable, and a set of rules of thumb embodying these relationships can aid in estimating how changes in the economic assumptions would alter outlays, receipts, and the surplus or deficit. These rules of thumb should be understood as suggesting orders of magnitude; they ignore a long list of secondary effects that are not captured in the estimates.

Economic variables that affect the budget do not usually change independently of one another. Output and employment tend to move together in the short run: a high rate of real GDP growth is generally associated with a declining rate of unemployment, while slow or negative growth is usually accompanied by rising unemployment. In the long run, however, changes in the average rate of growth of real GDP are mainly due to changes in the rates of growth of productivity and the labor force, and are not necessarily associated with changes in the average rate of unemployment. Inflation and interest rates are also closely interrelated: a higher expected rate of inflation increases interest rates, while lower expected inflation reduces interest rates.

Changes in real GDP growth or inflation have a much greater cumulative effect on the budget over time if they are sustained for several years than if they last for only one year. Highlights of the budgetary effects of the above rules of thumb are shown in Table 12–5.

For real growth and employment:

- As shown in the first block, if in 2008 for one year only, real GDP growth is lower by one percentage point and the unemployment rate permanently rises by one-half percentage point relative to the Budget assumptions, the fiscal year 2008 deficit is estimated to increase by $16.4 billion; receipts in 2008 would be lower by $13.8 billion, and outlays would be higher by $2.6 billion, primarily for unemployment-sensitive programs. In fiscal year 2009, the estimated receipts shortfall would grow further to $28.9 billion, and outlays would increase by $8.2 billion relative to the base, even though the growth rate in calendar year 2009 equaled the rate originally assumed. This is because the level of real (and nominal) GDP and taxable incomes would be permanently lower, and unemployment permanently higher. The budget effects (including growing interest costs associated with larger deficits) would continue to grow slightly in each successive year. During 2008–2013, the cumulative increase in the budget deficit is estimated to be $251 billion.
- The budgetary effects are much larger if the real growth rate is permanently reduced by one percentage point and the unemployment rate is unchanged, as shown in the second block. This scenario might occur if trend productivity were permanently lowered. In this example, during 2008–2013, the cumulative increase in the budget deficit is estimated to be $706 billion.

For inflation and interest rates:

- The third block shows the effect of a one percentage point higher rate of inflation and one percentage point higher interest rates during calendar year 2008 only. In subsequent years, the price level and nominal GDP would be one percent higher than in the base case, but interest rates and future inflation rates are assumed to return to their base levels. In 2008 and 2009, outlays would be above the base by $12.5 billion and $20.7 billion, respectively, due in part to lagged cost-of-living adjustments. Receipts would rise by $21.2 billion in 2008, but then would rise by $40.9 billion above the base in 2009 due to the sustained effects of the elevated price level on the tax base, and to the temporary effect of higher 2008 interest rates on individuals' incomes and taxes and financial corporations' profits and taxes, resulting in a $20.2 billion improvement in the 2009 budget balance. In subsequent years, the amounts added to receipts would continue to be larger than the additions to outlays. During 2008–2013, cumulative budget deficits would be $114 billion smaller than in the base case.
- In the fourth block, the rate of inflation and the level of interest rates are higher by one percentage point in all years. As a result, the price level and nominal GDP rise by a cumulatively growing percentage above their base levels. In this case, the effects on receipts and outlays mount steadily in successive years, adding $390 billion to outlays over 2008–2013 and $793 billion to receipts, for a net decrease in 2008–2013 deficits of $402 billion.
- The outlay effects of a one percentage point increase in interest rates alone are shown in the fifth block. The receipts portion of this rule-of-thumb is due to the Federal Reserve's deposit of earnings on its securities portfolio and the effect of interest rate changes on both individuals' in-

come (and taxes) and financial corporations' profits (and taxes).

- The sixth block shows that a sustained one percentage point increase in the GDP price index and in CPI inflation decreases cumulative deficits by a substantial $444 billion during 2008–2013. This large effect is because the additional receipts from a higher tax base exceed the combination of higher outlays from mandatory cost-of-living adjustments and lower receipts from CPI indexation of tax brackets. Outlays for discretionary programs are assumed to be unchanged in spite of the higher inflation rate. The separate effects of higher inflation and higher interest rates in the fifth and sixth blocks do not sum to the effects for simultaneous changes in both in the fourth block. This occurs largely because the gains in budget receipts due to higher inflation result in higher debt service savings when interest rates are assumed to be higher as well (the combined case) than when interest rates are assumed to be unchanged (the separate case).

The last entry in the table shows rules of thumb for the added interest cost associated with changes in the budget deficit, holding interest rates and other economic assumptions constant.

The effects of changes in economic assumptions in the opposite direction are approximately symmetric to those shown in the table. The impact of a one percentage point lower rate of inflation or higher real growth would have about the same magnitude as the effects shown in the table, but with the opposite sign.

Table 12–5. SENSITIVITY OF THE BUDGET TO ECONOMIC ASSUMPTIONS

(Fiscal years; in billions of dollars)

Budget effect	2008	2009	2010	2011	2012	2013	Total of Effects, 2008-2013
Real Growth and Employment							
Budgetary effects of 1 percent lower real GDP growth:							
(1) For calendar year 2008 only: [1]							
Receipts	–13.8	–28.9	–32.6	–35.2	–36.2	–38.1	–184.8
Outlays	2.6	8.2	10.5	12.7	15.0	17.1	66.0
Increase in deficit (–)	–16.4	–37.1	–43.1	–47.9	–51.2	–55.2	–250.9
(2) Sustained during 2008–2018, with no change in unemployment:							
Receipts	–14.0	–45.3	–83.8	–128.3	–170.5	–219.2	–661.1
Outlays	0.1	1.0	3.3	7.5	13.4	19.2	44.4
Increase in deficit (–)	–14.1	–46.3	–87.1	–135.8	–183.8	–238.4	–705.5
Inflation and Interest Rates							
Budgetary effects of 1 percentage point higher rate of:							
(3) Inflation and interest rates during calendar year 2008 only:							
Receipts	21.2	40.9	38.0	36.0	36.9	38.8	211.9
Outlays	12.5	20.7	17.4	16.3	15.3	15.2	97.4
Decrease in deficit (+)	8.7	20.2	20.6	19.7	21.6	23.7	114.5
(4) Inflation and interest rates, sustained during 2008–2018:							
Receipts	21.2	64.5	108.3	153.8	197.3	247.6	792.7
Outlays	12.9	38.2	60.3	77.9	92.1	108.9	390.2
Decrease in deficit (+)	8.4	26.3	48.0	75.9	105.2	138.7	402.5
(5) Interest rates only, sustained during 2008–2018:							
Receipts	7.4	19.9	27.0	30.1	33.1	35.7	153.2
Outlays	8.9	24.8	36.4	42.2	45.9	48.5	206.7
Increase in deficit (–)	–1.5	–5.0	–9.4	–12.1	–12.8	–12.8	–53.5
(6) Inflation only, sustained during 2008–2018:							
Receipts	13.8	44.5	81.1	123.4	163.7	211.3	637.9
Outlays	4.1	13.7	24.7	37.4	49.0	64.8	193.7
Decrease in deficit (+)	9.8	30.9	56.4	86.0	114.7	146.5	444.2
Interest Cost of Higher Federal Borrowing							
(7) Outlay effect of $100 billion increase in borrowing in 2008	2.0	4.1	4.5	4.9	5.1	5.3	25.9

* $50 million or less.

[1] The unemployment rate is assumed to be 0.5 percentage point higher per 1.0 percent shortfall in the level of real GDP.

13. STEWARDSHIP

Introduction

The budget is an essential tool for allocating resources within the Federal Government and between the public and private sectors, but current outlays, receipts, and the deficit give at best a partial picture of the Government's financial condition. Indeed, changes in the annual budget deficit or surplus can be misleading. For example, the temporary shift from annual deficits to surpluses in the late 1990s did nothing to correct the long-term fiscal deficiencies in the major entitlement programs, which are the major source of the long-run shortfall in Federal finances. This would have been more apparent at the time if greater attention had been focused on long-term measures such as those presented in this chapter. As important as the current budget surplus or deficit is, other indicators are also needed to judge the Government's fiscal condition.

For the Federal Government, there is no single number that corresponds to a business's bottom line. The Government is judged by how its actions affect the country's security and well-being over time, and that cannot easily be summed up with a single statistic. Also, even though its financial condition is important, the Government is not expected to earn a profit. One measure of the Government's performance is the extent to which it collects the taxes that are owed to it, and another is whether it delivers value in spending the taxes that it collects. Both of those questions are addressed below. In general, the Government's financial status is best evaluated using a broad range of data and several complementary perspectives. This chapter presents a framework for such analysis. Because there are serious limitations on the available data and the future is uncertain, this chapter's findings and conclusions should be interpreted as tentative and subject to future revision.

The chapter consists of four parts:

- Part I explains how the separate pieces of analysis link together. Chart 13–1 is a schematic diagram showing the linkages.
- Part II presents estimates of the Government's assets and liabilities, which are shown in Table 13–1. This table is similar to a business balance sheet, but for that reason it cannot reveal some of the Government's unique financial features and needs to be supplemented by the information in Parts III and IV.
- Part III shows possible long-run paths for the Federal budget. These projections vary depending on alternative economic and demographic assumptions. The projections are summarized in Table 13–2 and in a related set of charts. Table 13–3 shows present value estimates of the funding shortfall in Social Security and Medicare. Together, these data indicate the scope of the Government's future responsibilities and the resources it will have available to discharge them under current law and policy. In particular, they show the looming long-run fiscal challenge posed by the Federal entitlement programs.
- Part IV returns the focus to the present. This part presents information on national economic and social conditions. It begins with an analysis of tax compliance, including what can be done to improve it, and what resources might be made available with new efforts to assure compliance. The private economy is the ultimate source of the Government's resources. Table 13–5 gives a summary of total national wealth, while highlighting the Federal investments that have contributed to that wealth. Table 13–6 shows trends in wealth and Table 13–7 presents a small sample of statistical indicators, which are intended to show how the Government's efforts to improve social and economic outcomes might be measured.

PART I—A FRAMEWORK TO EVALUATE FEDERAL FINANCES

No single framework can encompass all of the factors that affect the financial condition of the Federal Government, but the framework presented here is comprehensive and offers many insights into the financial implications of Federal policies. This framework includes information about Government assets and liabilities, but it also includes long-run projections of the entire budget showing where future fiscal strains are most likely to appear. It includes an analysis of the Government's potential revenue for a given tax structure and what can be done realistically through better education and more rigorous enforcement of the tax law to reach that potential. Measures of national wealth, which support future income and tax receipts, are presented along with an array of economic and social indicators showing potential pressure points that may require future policy responses.

The Government's binding obligations—its liabilities—consist in the first place of Treasury debt. Other liabilities include the pensions and medical benefits owed to retired Federal employees and veterans. These employee obligations are a form of deferred compensation; they have counterparts in the business world, and would appear as liabilities on a business balance sheet.

Accrued obligations for Government insurance policies and the estimated present value of failed loan guarantees and deposit insurance claims are also analogous to private liabilities. These Government liabilities are discussed further in Part II along with the Government's assets. The liabilities and assets are collected in Table 13–1. The liabilities shown in Table 13–1 are only a subset of the Government's overall financial responsibilities. Indeed, the full extent of the Government's fiscal exposure through programmatic commitments dwarfs the outstanding total of all acknowledged Federal liabilities. The commitments to Social Security and Medicare alone amount to many times the value of Federal debt held by the public.

In addition to Social Security and Medicare, the Government has a broad range of programs that dispense cash and other benefits to individual recipients. A few examples of such programs are Medicaid, food stamps, veterans' pensions, and veterans' health care. The Government also provides a wide range of public services that must be financed through the tax system. It is true that specific programs may be modified or even ended at any time by the Congress and the President, and changes in the laws governing these programs are a regular part of the legislative cycle. For this reason, these programmatic commitments do not constitute "liabilities." They are Federal responsibilities, however, and will have a claim on budgetary resources for the foreseeable future unless the law is changed. All of the Government's existing programs are reflected in the long-run budget projections in Part III. It would be misleading to leave out any of these programmatic commitments in projecting future claims on the Government or in calculating the Government's long-run fiscal balance.

The Federal Government has many assets. These include financial assets, such as loans and mortgages which have been acquired through various credit programs. They also include the plant and equipment used to produce Government services. The Government also owns a substantial amount of land. Such assets would normally be shown on a balance sheet. The Government has other resources in addition to these. These additional resources include most importantly the Government's sovereign power to tax.

Because of its unique responsibilities and resources, the most revealing way to analyze the future strains on the Government's fiscal position is to make a long-run projection of the entire Federal budget. Part III of this chapter presents a set of such projections under different assumptions about policy and future economic and demographic conditions. Over long periods of time, the spending of the Government must be financed by the taxes and other receipts it collects. Although the Government can borrow for temporary periods, it must pay interest on any such borrowing, which adds to future spending. In the long run, a solvent Government must pay for its programmatic spending out of its receipts. The projections in Part III show that under an extension of the estimates in this Budget, long-run balance in this sense is not achieved, mostly because projected spending for Social Security, Medicare, and Medicaid grows faster than the revenue available to pay for it.

The long-run budget projections and the table of assets and liabilities are silent on the questions of whether the Government is collecting the full amount of taxes owed, whether the public is receiving value for its taxes paid, and whether Federal resources are being used effectively. Information on those points requires performance measures for Government programs supplemented by appropriate information about conditions in the economy and society. Recent changes in budgeting practices have contributed to the goal of providing more information about Government programs and will permit a closer alignment of the cost of programs with performance measures. These changes have been described in detail in previous Budgets. They are reviewed in Chapter 2 of this volume, and in the accompanying material that describes results obtained with the Program Assessment Rating Tool (PART). This Stewardship chapter complements the detailed exploration of Government performance with an assessment of the overall impact of Federal policy as reflected in general measures of economic and social well-being such as those shown in Table 13–7.

Relationship with FASAB Objectives

The framework presented here meets the stewardship objective for Federal financial reporting recommended by the Federal Accounting Standards Advisory Board (FASAB) and adopted for use by the Federal Government in September 1993.[1]

> *Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the Nation's financial conditions have changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine:*
>
> *3a. Whether the government's financial position improved or deteriorated over the period.*
>
> *3b. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.*
>
> *3c. Whether government operations have contributed to the nation's current and future well-being.*

The current presentation is an experimental approach for fulfilling this objective at the Federal Government-wide level. It is intended to meet the broad interests of economists and others in evaluating trends over time, including both past and future trends. The annual *Financial Report of the United States Government* presents related information, but from a different perspective. The *Financial Report* includes a balance sheet. The assets and liabilities on that balance sheet are all based on transactions and other events that have already occurred. In some cases, the assets and liabilities are evaluated differently than those reported in Part II of this chapter. The *Financial Report* also in-

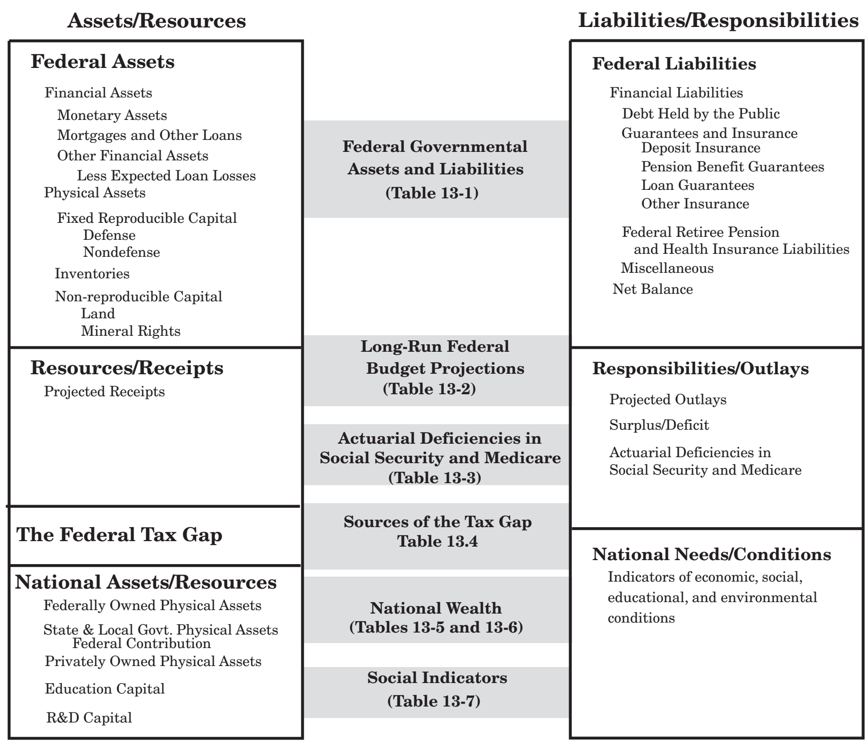
[1] Statement of Federal Financial Accounting Concepts, Number 1, Objectives of Federal Financial Reporting, September 2, 1993. Other objectives are budgetary integrity, operating performance, and systems and controls.

cludes a statement of social insurance that reviews a substantial body of information on the condition and sustainability of the Government's social insurance programs. This year, the *Report* included for the first time a brief discussion of the long-run budget outlook for the Government as a whole, which is similar to the long-run projections discussed in this chapter. This is a useful development and will help to inform readers of the Government's fiscal sustainability in a way not possible with more limited analysis.

Connecting the Dots: The presentation that follows is constructed around a series of tables and charts. The schematic diagram, Chart 13–1, shows how the different pieces fit together. The tables and charts should be viewed as an ensemble, the main elements of which are grouped in two broad categories—assets/resources and liabilities/responsibilities.

- The left-hand side of Chart 13–1 shows the full range of Federal resources, including assets the Government owns, tax receipts it can expect to collect based on current and proposed laws, the tax gap, and national wealth, including the trained skills of the national work force, that provide the base for Government revenues.
- The right-hand side reveals the full range of Federal obligations and responsibilities, beginning with the Government's acknowledged liabilities from past actions, such as the debt held by the public, and including future budget outlays needed to maintain present policies and trends. This column ends with a set of indicators highlighting areas where Government activity affects society or the economy.

Chart 13-1. The Financial Condition of the Federal Government and the Nation



QUESTIONS AND ANSWERS ABOUT THE GOVERNMENT'S STEWARDSHIP

1. According to Table 13–1, the Government's liabilities exceed its assets. No business could operate in such a fashion. Why does the Government not manage its finances more like a business?

The Federal Government has different objectives from a business firm. The goal of every business is to earn a profit, and as a general rule the Federal Government properly leaves activities at which a profit could be earned to the private sector. For the vast bulk of the Federal Government's operations, it would be difficult or impossible to charge prices that would cover expenses. The Government undertakes these activities not to improve its balance sheet, but to benefit the Nation.

For example, the Government invests in education and research, but it earns no direct return from these investments. People are enriched by these investments, but the returns do not show up as an increase in Government assets but rather as an increase in the general state of knowledge and in the capacity of the country's citizens to earn a living and lead a fuller life. Business investment motives are quite different; business invests to earn a profit for itself, not others, and if its investments are successful, their value will be reflected in its balance sheet. Because the Federal Government's objectives are different, its balance sheet behaves differently, and should be interpreted differently.

2. Table 13–1 seems to imply that the Government is insolvent. Is it?

No. Just as the Federal Government's responsibilities are different from those of private business, so are its resources. Government solvency must be evaluated in different terms.

What Table 13–1 shows is that those Federal obligations that are most comparable to the liabilities of a business corporation exceed the estimated value of the assets actually owned by the Federal Government. The Government, however, has access to other resources through its sovereign powers. These powers, which include taxation, will allow the Government to meet its present obligations and those that are anticipated from future operations even though the Government's current assets are less than its current liabilities.

Private financial markets clearly recognize this reality. The Federal Government's implicit credit rating is among the best in the world; lenders are willing to lend it money at interest rates substantially below those charged to private borrowers. This would not be true if the Government were really insolvent or likely to become so in the near future. Where governments totter on the brink of insolvency, lenders are either unwilling to lend them money, or do so only in return for a substantial interest premium.

QUESTIONS AND ANSWERS ABOUT THE GOVERNMENT'S STEWARDSHIP

3. Why are Social Security and Medicare not shown as Government liabilities in Table 13–1?

Future Social Security and Medicare benefits may be considered as promises or responsibilities of the Federal Government, but these benefits are not a liability in a legal or accounting sense. The Government has unilaterally decreased as well as increased these benefits in the past, and future reforms could alter them again. These benefits are reflected in this presentation of the Government's finances in two ways: as part of the overall budget projections in Table 13–2, and in the actuarial deficiency estimates in Table 13–3.

Other Federal programs make similar promises to those of Social Security and Medicare—Medicaid, for example. Few have suggested counting future benefits expected under these programs as Federal liabilities, yet it would be difficult to justify a different accounting treatment for them if Social Security or Medicare were to be classified as a liability. There is no bright line dividing Social Security and Medicare from other programs that promise benefits to people, and all the Government programs that do so should be accounted for similarly.

Also, if future Social Security and Medicare benefits were treated as liabilities, then payroll tax receipts earmarked to finance those benefits ought to be treated as assets. This treatment would be essential to gauge the size of the future claim. Tax receipts, however, are not generally considered to be Government assets, and for good reason: the Government does not own the wealth on which future taxes depend. Including taxes on the balance sheet would be wrong for this reason, but excluding taxes from the balance sheet would overstate the drain on net assets from Social Security and Medicare benefits. Furthermore, treating taxes for Social Security or Medicare differently from other taxes would be highly questionable.

Finally, under Generally Accepted Accounting Principles (GAAP), Social Security is not considered to be a liability, so not counting it as such in this chapter is consistent with accounting standards.

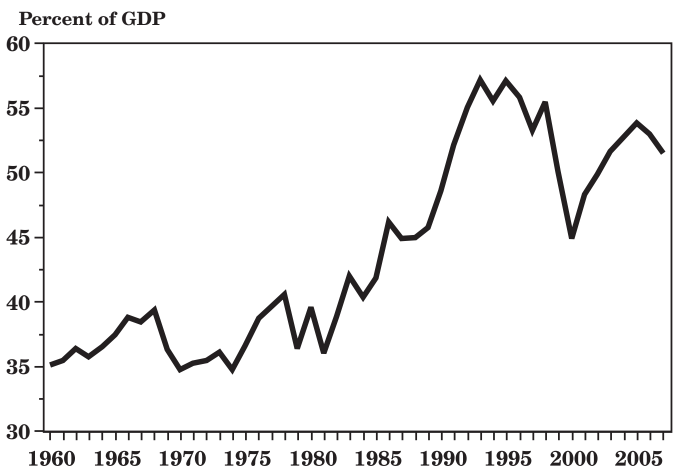
4. Why doesn't the Federal Government follow normal business practice in its bookkeeping?

The Government is not a business, and accounting standards designed to illuminate how much a business earns and how much equity it has could provide misleading information if applied naively to the Government. The Government does not have a "bottom line" comparable to that of a business corporation, but the Federal Accounting Standards Advisory Board (FASAB) has developed, and the Government has adopted, a conceptual accounting framework that reflects the Government's distinct functions and answers many of the questions for which Government should be accountable. This framework addresses budgetary integrity, operating performance, stewardship, and systems and controls. FASAB has also developed, and the Government has adopted, a full set of accounting standards. Federal agencies now issue audited financial reports that follow these standards, and an audited Government-wide financial report is issued as well. In short, the Federal Government does follow generally accepted accounting principles (GAAP) just as businesses and State and local governments do, although the relevant principles differ depending on the circumstances. This chapter is intended to address the "stewardship objective"—assessing the interrelated condition of the Federal Government and the Nation.

PART II—THE FEDERAL GOVERNMENT'S ASSETS AND LIABILITIES

Table 13–1 looks at the Government's assets and liabilities retrospectively, summarizing what the Government owes as a result of its past operations netted against the value of what it owns. The table gives some perspective by showing these net asset figures for a number of years beginning in 1960. To ensure comparability across time, the assets and liabilities are measured in terms of constant FY 2007 dollars and the balance is also shown as a ratio to GDP. Government liabilities have exceeded the value of assets (see chart 13–2) over this entire period, but in the late 1970s a speculative run-up in the prices of oil and other real assets temporarily boosted the value of Federal holdings. When those prices subsequently declined, real Federal asset values declined and only recently have they regained the level they had reached in the mid-1980s.

Chart 13-2. Net Federal Liabilities



Currently, the total real value of Federal assets is estimated to be 78 percent greater than it was in 1960. Meanwhile, Federal liabilities have increased by 257 percent in real terms. The decline in the Federal net asset position has been partly due to persistent Federal budget deficits that have boosted debt held by the public in most years since 1960. Other factors have also been important such as large increases in health benefits promised for Federal retirees and the sharp rise in veterans' disability compensation. The relatively slow growth in Federal asset values has also reduced the Government's net asset position.

The shift from budget deficits to budget surpluses in the late 1990s temporarily checked the decline in Federal net assets. Currently, the net excess of liabilities over assets is about $7.2 trillion or about $23,800 per capita. As a ratio to GDP, the excess of liabilities over assets reached a peak of 57 percent in 1995; it declined to 45 percent in 2000; it rose to 54 percent in 2005; and it has declined slightly since then to around 52 percent of GDP at the end of 2007. The average since 1960 has been 44 percent (see Table 13–1).

Assets

Table 13–1 offers a comprehensive list of the financial and physical resources owned by the Federal Government.

Financial Assets: According to the Federal Reserve Board's Flow-of-Funds accounts, the Federal Government's holdings of financial assets amounted to $613 billion at the end of 2007. Government-held mortgages (measured in constant dollars) reached a peak in the early 1990s as the Government acquired mortgages from savings and loan institutions that had failed. The Government subsequently liquidated most of the mortgages it acquired from these bankrupt savings and loans. Meanwhile, Government holdings of other loans have been declining in real terms since the mid-1980s. The face value of mortgages and other loans overstates their economic worth. OMB estimates that the discounted present value of future losses and interest subsidies on these loans was around $44 billion as of year-end 2007. These estimated losses are subtracted from the face value of outstanding loans to obtain a better estimate of their economic worth.

Table 13–1. GOVERNMENT ASSETS AND LIABILITIES*

(As of the end of the fiscal year, in billions of 2007 dollars)

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006	2007
ASSETS												
Financial Assets:												
Cash and Checking Deposits	49	71	44	36	55	36	49	50	67	37	52	77
Other Monetary Assets	2	1	1	2	2	2	2	1	7	2	5	1
Mortgages	32	31	46	48	89	90	115	80	91	81	83	83
Other Loans	118	162	203	205	263	341	242	194	225	211	202	205
less Expected Loan Losses	–1	–3	–5	–11	–20	–20	–23	–29	–44	–43	–48	–44
Other Treasury Financial Assets	71	89	78	70	99	146	233	280	255	326	309	290
Subtotal	271	351	367	350	488	596	618	577	602	614	603	613
Nonfinancial Assets:												
Fixed Reproducible Capital:	1,185	1,176	1,223	1,186	1,124	1,271	1,318	1,325	1,162	1,162	1,178	1,222
Defense	1,022	960	970	886	795	925	949	927	759	733	745	775
Nondefense	164	216	253	300	328	346	369	398	403	429	433	447
Inventories	310	268	250	224	276	316	280	216	221	287	288	277
Nonreproducible Capital:	159	210	251	411	607	685	581	430	717	1,117	1,211	1,311
Land	109	151	190	301	385	399	411	306	475	743	824	919
Mineral Rights	51	59	61	110	223	286	170	124	242	374	387	392
Subtotal	1,655	1,654	1,724	1,821	2,007	2,272	2,179	1,970	2,101	2,566	2,677	2,809
Total Assets	1,925	2,006	2,090	2,171	2,495	2,868	2,798	2,547	2,703	3,180	3,280	3,423
LIABILITIES												
Debt held by the Public	1,352	1,390	1,237	1,257	1,563	2,585	3,522	4,681	4,076	4,852	4,945	5,035
Insurance and Guarantee Liabilities:												
Deposit Insurance	....	....	....	....	2	11	85	6	1	1	1	2
Pension Benefit Guarantee	....	....	....	51	37	51	51	24	48	87	76	83
Loan Guarantees	*	1	3	8	15	13	18	35	44	51	49	69
Other Insurance	37	33	26	24	32	20	24	21	19	43	20	17
Subtotal	37	34	29	82	86	94	178	86	113	181	146	171
Pension and Post-Employment Health Liabilities:												
Civilian and Military Pensions	1,021	1,283	1,534	1,739	2,138	2,121	2,073	2,010	2,107	2,292	2,372	2,415
Retiree Health Insurance Benefits	209	263	314	356	438	434	424	420	467	1,188	1,160	1,145
Veterans Disability Compensation	224	282	337	374	383	316	285	346	661	1,186	1,181	1,128
Subtotal	1,454	1,828	2,186	2,468	2,959	2,872	2,783	2,777	3,234	4,666	4,713	4,688
Environmental and Disposal Liabilities	80	99	119	134	161	191	226	295	360	274	313	342
Other Liabilities:												
Trade Payables and Miscellaneous	32	40	50	62	97	127	174	144	125	238	248	255
Benefits Due and Payable	24	29	39	41	53	58	70	81	93	124	132	134
Subtotal	57	68	89	103	149	185	244	226	218	361	381	389
Total Liabilities	2,980	3,420	3,660	4,045	4,919	5,928	6,953	8,064	8,002	10,335	10,497	10,625
Net Assets (Assets Minus Liabilities)	–1,054	–1,414	–1,569	–1,874	–2,424	–3,060	–4,155	–5,517	–5,299	–7,155	–7,216	–7,202
Addenda:												
Net Assets Per Capita (in 2007 dollars)	–5,847	–7,289	–7,665	–8,691	–10,630	–12,814	–16,582	–20,663	–18,734	–24,064	–24,039	–23,768
Ratio to GDP (in percent)	–35.1	–37.5	–34.8	–36.6	–39.6	–41.9	–48.6	–57.2	–44.9	–53.9	–53.1	–51.6

* This table shows assets and liabilities for the Government as a whole excluding the Federal Reserve System. Data for 2007 are extrapolated in some cases.

Reproducible Capital: The Federal Government is a major investor in physical capital and computer software. Government-owned stocks of such capital have remained fairly stable measured in constant (year 2000) dollars for most of the last 45 years (OMB estimate) at around $1.2 trillion. This capital consists of defense equipment and structures, including weapons systems, as well as nondefense capital goods. Currently, less than two-thirds of the capital is defense equipment or structures. In 1960, defense capital was over 80 percent of the total. In the 1970s, there was a substantial decline in the real value of U.S. defense capital and there was another large decline in the 1990s after the end of the Cold War. Meanwhile, nondefense Federal capital has increased at an average annual rate of around 2.2 percent. The Government also holds inventories of defense goods and other items that in 2007 amounted to about 23 percent of the value of its fixed reproducible capital.

Nonreproducible Capital: The Government owns significant amounts of land and mineral deposits. There are no official estimates of the market value of these holdings (and of course, in a realistic sense, many of these resources would never be sold). Private land values fell sharply in the early 1990s, but they have generally risen since. It is assumed here that Federal land shared in the decline and the subsequent recovery. Oil prices have been on a roller coaster since the mid-1990s. They declined sharply in 1997–1998, rebounded in 1999–2000, fell again in 2001, and rose substantially in 2002–2007. These fluctuations have caused the estimated market value of Federally owned proved reserves of oil and natural gas to fluctuate as well. In 2007, as estimated here, the combined real value of Federal land and mineral rights was $1.3 trillion compared with $1.5 trillion in Federal fixed capital and inventories.

These estimates omit some valuable assets owned by the Federal Government—such as works of art and historical artifacts—partly because such unique assets are unlikely ever to be sold and partly because there is no comprehensive inventory or realistic basis for valuing them.

Total Assets: The total value of Government assets measured in constant dollars has risen sharply in the past four years, and was at an all-time high in 2007. The Government's asset holdings are vast. As of the end of 2007, Government assets were estimated to be worth about $3.4 trillion or 24 percent of GDP.

Liabilities

Table 13–1 includes all Federal liabilities that would normally be listed on a balance sheet. All the various forms of publicly held Federal debt are counted, as are Federal pension and health insurance obligations to civilian and military retirees including the disability compensation that is owed the Nation's veterans, which can be thought of as a form of deferred compensation. The estimated liabilities stemming from Federal insurance programs and loan guarantees are shown. The benefits that are due and payable under various Federal programs are also included, but these liabilities reflect only binding short-term obligations, not the Government's full commitment under these programs. The Government also has a responsibility to repair environmental damage that resulted from nuclear weapons production, and that cost has been included in the Table as well.

Future benefit payments that are promised through Social Security and other Federal income transfer programs are not Federal liabilities in a legal or accounting sense. They are Federal responsibilities, and it is important to gauge their size, but they are not binding in the same way as a legally enforceable claim would be. The budget projections and other data in Part III are designed to provide a sense of these broader responsibilities and their claim on future budgets.

Debt Held by the Public: The Federal Government's largest single financial liability is the debt owed to the public. It amounted to about $5.0 trillion at the end of 2007. Publicly held debt declined for several years in the late 1990s because of the unified budget surpluses at that time, but as deficits returned, publicly held debt began to increase again.

Insurance and Guarantee Liabilities: The Federal Government has contingent liabilities arising from the loan guarantees it has made and from its insurance programs. When the Government guarantees a loan or offers insurance, cash disbursements are often small initially, and if a fee is charged the Government may even collect money; but the risk of future cash payments associated with such commitments can be large. The figures reported in Table 13–1 are estimates of the current discounted value of prospective future losses on outstanding guarantees and insurance contracts. The present value of all such losses taken together is about $170 billion. As is true elsewhere in this chapter, this estimate does not incorporate the market value of the risk associated with these contingent liabilities; it merely reflects the present value of expected losses. Although individually many of these programs are large and potential losses can be a serious concern, these insurance and guarantee liabilities are fairly small relative to total Federal liabilities or even the total debt held by the public. They were less than 2 percent of total liabilities in 2007.

Pension and Post-Employment Health Liabilities: The Federal Government owes pension benefits as a form of deferred compensation to retired workers and to current employees who will eventually retire. It also provides civilian retirees with subsidized health insurance through the Federal Employees Health Benefits program and military retirees receive similar benefits. Veterans are owed compensation for their service-related disabilities. While the Government's employee pension obligations have risen slowly, there has been a sharp increase in the liability for future health benefits and veterans compensation. The discounted present value of all these benefits was estimated to be around $4.7 trillion at the end of 2007 up from $3.2 trillion in 2000.[2] A large expansion in Federal military retiree health benefits was legislated in 2001.

Environmental and Disposal Liabilities: During World War II and the Cold War, the Federal Government constructed a vast industrial complex to study, produce and test nuclear weapons. Environmental contamination occurred at these sites. The estimated liability shown here is based on the cleanup costs required by Federal, State and local laws and regulations. The Department of Energy is responsible for managing this cleanup. The Department of Defense is also charged with cleaning up contamination from its waste disposal practices, leaks, spills and other risky activities. Together the cleanup costs are estimated to amount to around 340 billion dollars in present value.[3]

The Balance of Net Liabilities

The Government need not maintain a positive balance of net assets to assure its fiscal solvency, and the buildup in net liabilities since 1960 has not significantly affected Federal creditworthiness. Long-term Government interest rates in 2003 reached their lowest levels in 45 years, and in 2004–2007 they remained lower than at any time from 1965 through 2002. Despite the historically low interest rates, there are limits to how much debt the Government can assume without putting its finances in jeopardy. Over an extended time horizon, the Federal Government must take in enough

[2] Estimates of these liabilities were derived from the Financial Report of the United States Government for 2007 and earlier years. Values for years prior to 1997 were extrapolated.

[3] Estimates of these liabilities were also derived from the Financial Report of the United States Government for 2007 and earlier years. Values for years prior to 1997 were extrapolated.

revenue to cover all of its spending including debt service. The Government's ability to service its debt in the long run cannot be gauged from a balance sheet alone. It is necessary to project the budget into the future to judge the prospects for long-run solvency. That is the subject of the next section.

PART III—THE LONG-RUN BUDGET OUTLOOK

A balance sheet, with its focus on obligations arising from past transactions, can only show so much information. For the Government, it is also important to anticipate what future budgetary requirements might flow from current laws and policies. Despite the uncertainty surrounding the assumptions needed for such estimates, very long-run budget projections can be useful in drawing attention to potential problems. Federal responsibilities extend well beyond the next five or ten years, and problems that may be small in that time frame can become much larger if allowed to grow.

To assess the overall financial condition of the Government, it is necessary to examine the future prospects for all Government programs including the revenue sources that support Government spending. Such an assessment reveals that the key drivers of the long-range deficit are, not surprisingly, Social Security, Medicare, and Medicaid. Social Security and Medicare are expected to continue indefinitely and long-range projections for Social Security and Medicare have been prepared for decades. Budget projections for individual programs, however, even important ones such as Social Security and Medicare, cannot reveal the Government's overall budgetary position. Like Medicare and Social Security, Medicaid—the entitlement program that provides medical assistance, including acute and long-term care to low-income persons including families with dependent children, as well as aged, blind or disabled individuals—is projected to grow more rapidly than the economy over the next several decades and to add substantially to the overall budget deficit. Under current law, there is no offset anywhere in the budget large enough to cover all the demands that will eventually be imposed by Social Security, Medicare, and Medicaid.

Future budget outcomes depend on a host of unknowns—constantly changing economic conditions, unforeseen international developments, unexpected demographic shifts, the unpredictable forces of technological advance, and evolving political preferences to name a few. These uncertainties make even short-run budget forecasting quite difficult, and the uncertainties increase the further into the future projections are extended. While uncertainty makes forecast accuracy difficult to achieve, it enhances the importance of long-run budget projections because future problems are often best addressed in the present. A full treatment of all the relevant risks is beyond the scope of this chapter, but the chapter does show how long-run budget projections respond to changes in some of the key economic and demographic parameters.

The Impending Demographic Transition

This year—2008—is a watershed year as the first members of the huge generation born after World War II, the so-called baby boomers, reach age 62 and become eligible for early retirement under Social Security. Three years from now, they turn 65 and become eligible for Medicare. In the years that follow, the elderly population will steadily increase, putting serious strains on the budget.

The pressures are expected to persist even after the baby boomers have passed through the system. The Social Security actuaries project that the ratio of workers to Social Security beneficiaries will fall from around 3.3 currently to a little over 2 by the time most of the baby boomers have retired. From that point forward, because of lower fertility and improved mortality, the ratio is expected to continue to decline slowly. With fewer workers to pay the taxes needed to support the retired population, budgetary pressures will continue to grow. The problem posed by the demographic transition is a permanent one.

Currently, the three major entitlement programs—Social Security, Medicare, and Medicaid—account for 45 percent of non-interest Federal spending, up from 30 percent in 1980. By 2035, when the remaining baby boomers will be in their 70s and 80s, these three programs could account for two-thirds of non-interest Federal spending even with the reforms proposed in this Budget. At the end of the projection period, in 2080, the figure rises to almost three-quarters of non-interest spending. In other words, most of the budget, aside from interest, would go to these three programs alone. That would severely reduce the flexibility of the budget, and the Government's ability to respond to new challenges.

An Unsustainable Path

These long-run budget projections shown in Table 13–2 illustrate that the budget is on an unsustainable path, although the expansion of the entitlement programs and the rise in the deficit unfold gradually. The budget is projected to reach balance in 2012, while most of the baby boomers are still in the work force and to remain in surplus for some years after 2012, but the deficit eventually returns and then begins a steady increase. Without further reforms, by the end of this chapter's projection period in 2080, rising deficits would have driven publicly held Federal debt to levels well above the previous peak level relative to GDP reached at the end of World War II. There likely would be a crisis that would force budgetary changes before that point could be reached, but the timing of such a crisis and its resolution are impossible to predict. Timely, comprehensive entitlement reforms could avoid such a crisis.

The revenue projections start with the budget's estimate of receipts under the Administration's proposals for the next five years. In the long run, for this analysis, receipts are assumed to return gradually to their average as a share of GDP over the last 40 years—18.3 percent. Maintaining that sustained historical tax level relative to GDP effectively assumes ongoing efforts—as has occurred historically—to offset the inherent biases in the tax code that tend to raise the tax burden over time.

The projection of discretionary spending is essentially arbitrary, because discretionary spending is determined annually through the legislative process, and no formula can dictate future spending in the absence of legislation. Alternative assumptions have been made for long-run discretionary spending in past budgets. Holding discretionary spending unchanged in real terms is the "current services" assumption used for baseline budget projections when there is no legislative guidance on future spending levels. Extending this assumption over many decades, however, is not realistic. When the population and economy grow, as assumed in these projections, the demand for public services is very likely to expand as well. The current base projection assumes that discretionary spending keeps pace with the growth in GDP in the long run, so that spending increases in real terms whenever there is real economic growth.

In past budgets, these long-run budget projections have typically jumped off from the end point for the current budget. This year's Budget, however, continues to include the effects of adding personal retirement accounts to Social Security. Personal accounts are one element within a possible set of larger reforms that would restore solvency to Social Security. Because showing the personal account proposal in isolation would give a distorted picture of the Administration's intentions for comprehensive Social Security reform, it is not included in the base projections.

The long-run budget outlook is highly uncertain. With pessimistic assumptions, the fiscal picture deteriorates even sooner than in the base projection. More optimistic assumptions imply a longer period before the pressures of rising entitlement spending overwhelm the budget. But despite the uncertainty, these projections show that under a wide range of forecasting assumptions, the resources generated by the programs themselves will be insufficient to cover the long-run costs of Social Security and Medicare and that overall budgetary resources will not be sufficient to support all future projected needs. (For a further discussion of the forecasting assumptions used to make these budget projections, see the technical note at the end of this chapter.)

Alternative Policy, Economic, and Technical Assumptions

The quantitative results discussed above are sensitive to changes in underlying policy, economic, and technical assumptions. Some of the most important of these assumptions and their effects on the budget outlook are discussed below. Mounting deficits result for most plausible projections of the budget.

1. *Health Spending:* The projections for Medicare over the next 75 years are based on an extension of the Administration's policy proposals to control costs in the Medicare program. These reforms are expected to reduce Medicare expenditures relative to the actuarial

Table 13–2. LONG-RUN BUDGET PROJECTIONS

(Receipts, outlays, surplus or deficit, and debt as a percent of GDP)

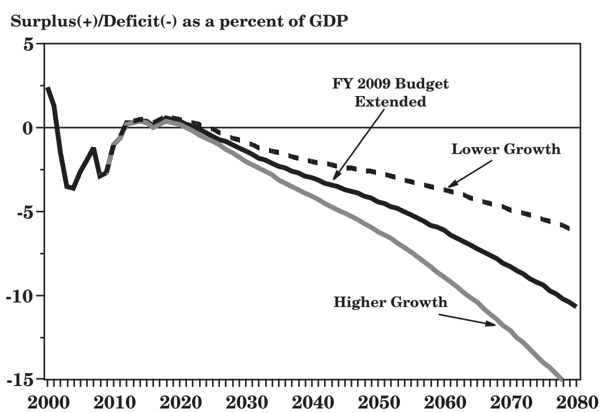
	1980	1990	2000	2010	2020	2030	2040	2060	2080
Receipts	19.0	18.0	20.9	18.6	18.3	18.3	18.3	18.3	18.3
Outlays:									
Discretionary	10.1	8.7	6.3	7.0	4.7	4.7	4.7	4.7	4.7
Mandatory:									
Social Security	4.3	4.3	4.2	4.3	5.1	5.9	6.0	6.1	6.3
Medicare	1.1	1.7	2.0	2.7	3.1	4.1	4.8	5.3	5.3
Medicaid	0.5	0.7	1.2	1.5	1.9	2.3	2.7	3.2	3.9
Other	3.7	3.2	2.4	2.4	2.0	1.7	1.5	1.3	1.2
Subtotal, mandatory	9.6	9.9	9.8	10.8	12.1	14.0	15.0	15.8	16.7
Net Interest	1.9	3.2	2.3	1.8	1.2	1.0	1.7	4.1	7.8
Total outlays	21.7	21.8	18.4	19.6	18.0	19.8	21.4	24.6	29.2
Surplus or Deficit (–)	–2.7	–3.9	2.4	–1.0	0.3	–1.5	–3.1	–6.3	–10.9
Primary Surplus or Deficit (–)	–0.8	–0.6	4.7	0.8	1.5	–0.4	–1.4	–2.3	–3.1
Federal Debt Held by the Public	26.1	42.0	35.1	38.2	22.2	20.5	33.9	80.4	154.4
Projections without Proposed Entitlement Savings:									
Mandatory Outlays	9.6	9.9	9.8	10.9	12.4	14.8	16.2	18.1	20.0
Surplus or Deficit (–)	–2.7	–3.9	2.4	–1.1	–0.1	–2.5	–5.2	–11.5	–20.6
Primary Surplus or Deficit (–)	–0.8	–0.6	4.7	0.6	1.2	–1.2	–2.6	–4.5	–6.4
Federal Debt Held by the Public	26.1	42.0	35.1	38.4	24.3	28.1	52.4	140.0	283.4

Note: The figures shown in this table for 2020 and beyond are the product of a long-range forecasting model maintained by the Office of Management and Budget. This model is separate from the models and capabilities that produce detailed programmatic estimates in the Budget. It was designed to produce long-range forecasts based on additional assumptions regarding growth of the economy, the long-range evolution of specific programs, and the demographic and economic forces affecting those programs. The model, its assumptions, and sensitivity testing of those assumptions are presented in this chapter.

projections in the 2007 Medicare Trustees' Report. Following the recommendations of its Technical Review Panel, the Medicare trustees assume that over the long run "age-and gender-adjusted, per-beneficiary spending growth exceeds the growth of per-capita GDP by 1 percentage point per year." This implies that total Medicare spending rises faster than GDP. Medicare faces a substantial shortfall in earmarked income compared with projected outgo. Although rising faster than GDP, under these assumptions, Medicare grows less rapidly than it has historically, so that even without explicit reforms the program's growth is assumed to be reduced. The effect of the Administration's proposals is to reduce future growth even more, and that would reduce the imbalance in Medicare by more than $10 trillion over the 75-year forecasting horizon according to actuarial estimates. Instead of facing a $34 trillion shortfall the program would face about a $24 trillion shortfall, if the Administration's proposals were adopted. The proposals would not eliminate the shortfall but they would reduce it substantially.

Eventually, the rising trend in health care costs will have to end, but it is hard to know when and how that will happen. Improved health and increased longevity are highly valued, and society has shown that it is willing to spend a larger share of income on them than it did in the past. Whether society will be willing to devote the large share of resources to health care implied by these projections, even with the Administration's proposals, is an open question. The alternatives highlight the effect of raising or lowering the projected growth rate in per capita health care costs by ¼ percentage point.

Chart 13-3. Health Care Cost Alternatives



2. *Entitlement Savings:* The Administration has proposed a number of savings measures in entitlement programs in addition to the Medicare savings discussed above. These proposals, if adopted, would have ongoing budgetary effects. The chart below shows the long-run deficit with and without these reforms.

Chart 13-4. Effect of Entitlement Savings

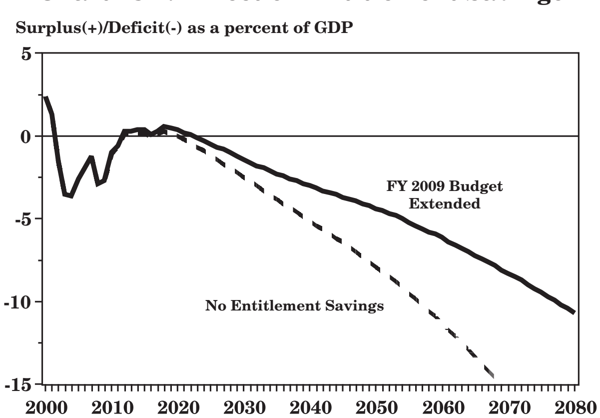
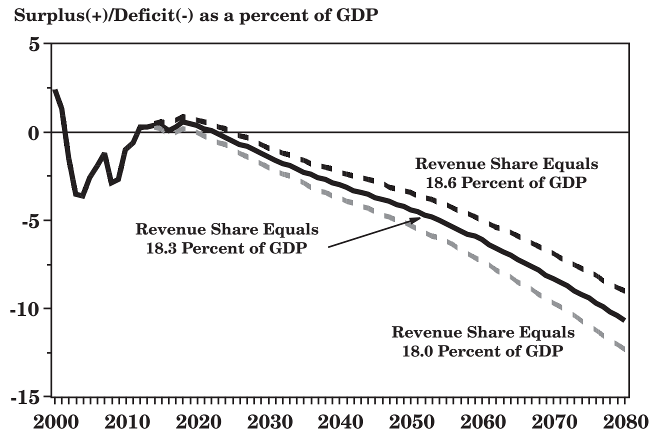


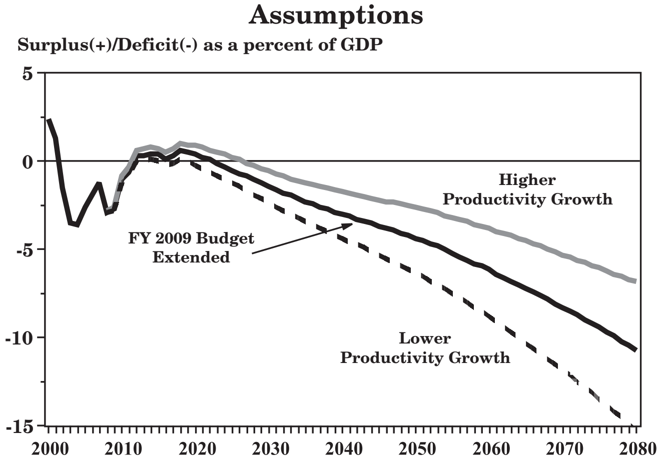
Chart 13-5. Alternative Receipts Projections



3. *Alternative Revenue Shares:* In the base projection, tax receipts are held constant relative to GDP at their average over the last 40 years—18.3 percent of GDP. Tax receipts have risen above this ratio from time to time, most recently in 2006–2007 of the 1990s, but periods of high taxes have always been followed by tax changes that have restored the long-term average tax ratio. The chart below shows the effects of alternative receipts assumptions. Allowing receipts to rise to 18.6 percent of GDP would reduce the long-run budget deficit, while holding receipts to 18.0 percent of GDP would have the opposite effect.

4. *Productivity:* The rate of future productivity growth has a major effect on the long-run budget outlook. It is also highly uncertain. Over the next few decades an increase in productivity growth would reduce projected budget deficits appreciably. Higher productivity growth adds directly to the growth of the major tax bases, while it has a smaller immediate effect on outlay growth even assuming that in the long-run discretionary spending rises with GDP. In the latter half of the 1990s, after two decades of much slower growth, the rate of productivity growth increased markedly, and that increase is projected to persist in these long-run projections. This increase in productivity growth is one of the most welcome developments of the last several decade. Although the long-run growth rate of productivity is inherently uncertain, growth in nonfarm output per hour has averaged 2.2 percent per year since 1948, and it has grown 2.6 percent per year since 1995. The projections here assume that productivity, as measured by real GDP per hour, will grow in the long run at a 2.2 percent annual rate. This is consistent with a continuing increase in nonfarm productivity of around 2.5 percent per year. The alternatives highlight the effect of raising the projected productivity growth rate by ¼ percentage point and the effect of lowering it by the same amount.

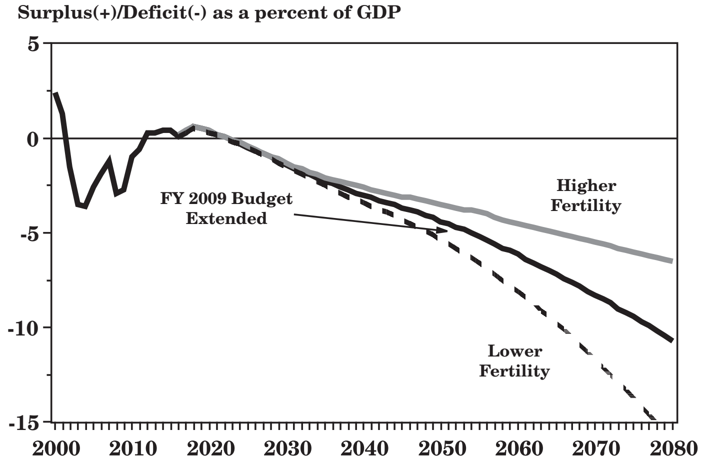
Chart 13-6. Alternative Productivity Assumptions



5. *Population:* The key assumptions for projecting long-run demographic developments are fertility, immigration, and mortality.

- The demographic projections assume that fertility will average between 1.9 and 2.0 total lifetime births per woman in the future, just slightly below the replacement rate needed to maintain a constant population—2.1 births per woman.

Chart 13-7. Alternative Fertility Assumptions



- The rate of immigration is assumed to average around 900,000 immigrants per year in these projections. Higher immigration relieves some of the downward pressure on population growth from low fertility and allows total population to expand throughout the projection period, although at a much slower rate than has prevailed historically.
- Mortality is projected to decline, i.e., people are expected to live longer. The average female lifespan is projected to rise from 79.7 years in 2006 to 85.1 years by 2080, and the average male lifespan is projected to increase from 75.0 years in 2006 to 81.9 years by 2080. A technical panel to the Social Security Trustees recently reported that the improvement in longevity might even be greater.

Chart 13-8. Alternative Immigration Assumptions

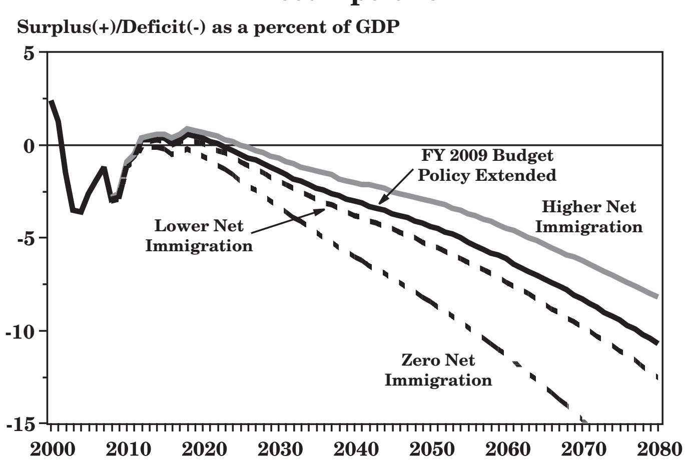
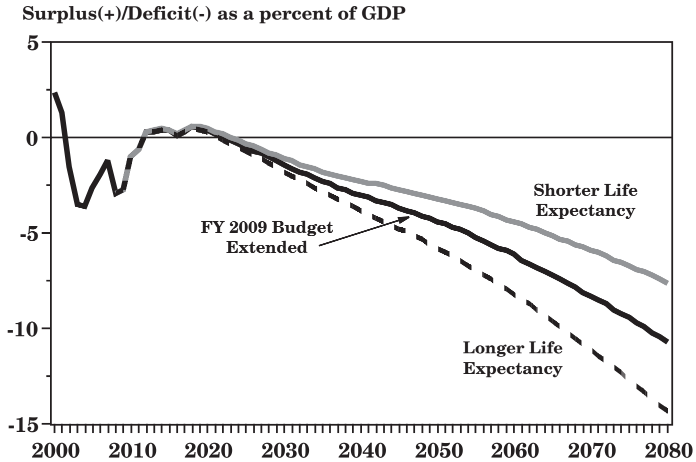


Chart 13-9. Alternative Mortality Assumptions



Actuarial Projections for Social Security and Medicare

Social Security and Medicare are the Government's two largest entitlement programs. Both rely on payroll tax receipts from current workers and employers for at least part of their financing, while the programs' benefits largely go to those who are retired. The importance of these programs for the retirement security of current and future generations makes it essential to understand their long-range financial prospects. Both programs' actuaries have calculated that they face persistent long-run deficits. How best to measure the long-run imbalance in Social Security is a challenging analytical question; the imbalance may be even more difficult to measure in Medicare, which includes Hospital Insurance (HI), funded through the payroll tax, and Supplementary Medical Insurance (SMI), financed through premiums and general revenues. Under plausible assumptions, however, each program embodies a huge financial deficiency, and it will be very difficult for the Government as a whole to maintain control of the budget without addressing these programs' financial problems.

Social Security: The Long-Range Challenge

Social Security provides financial security for the elderly, the disabled, and survivors. The Social Security system is intended to be self-financing over time. The principle of self-financing is important, because it compels corrections in the event that projected benefits consistently exceed dedicated receipts.

While Social Security is running surpluses today, the program's actuaries estimate that it will begin running cash deficits 9 years from now. Social Security's spending path is unsustainable under current law. The retirement of the baby-boom generation, born following World War II, will begin to increase greatly the number of Social Security beneficiaries within five years. Demographic trends toward lower fertility rates and longer life spans mean that the ratio of retirees to the working population will remain permanently higher following the baby boomers' passage through the system. The number of workers available to support each beneficiary is projected to decline from 3.3 today to 2.2 in 2030, and to continue to decline slowly from there. This decline in the workforce available to support retiree benefits means that the Government will not be able to meet current-law benefit obligations at current payroll tax rates.

The size of Social Security's future shortfall cannot be known with precision, but a gap between Social Security receipts and outlays emerges under a wide range of reasonable forecasting assumptions. Long-range uncertainty underscores the importance of creating a system that is financially stable and self-contained. Otherwise, the demands created by Social Security could compromise the rest of the budget and the Nation's economic health. The actuarial shortfall between future benefits and income is estimated to be $6.8 trillion over the next 75 years. Extending the horizon to perpetuity increases the imbalance to $15.7 trillion, excluding trust fund assets as these do not represent a source of funds from a unified budget perspective.

The current structure of Social Security leads to substantial generational differences in the average rate of return people can expect from the program. While previous generations have fared extremely well, people born today can expect to receive less than a two percent annual real rate of return on their total payroll taxes (including the employer's portion, which most economists believe is ultimately borne by labor). Moreover, such estimates in a sense overstate the expected rate of return for future retirees, because they assume no changes in current-law taxes or benefits, even though such changes are needed to meet Social Security's financing shortfall.

One way to address the issues of uncertainty and declining rates of return, while protecting national savings, would be to allow individuals to invest some of their payroll taxes in personal retirement accounts. The Budget includes the estimated impact from the creation of personal accounts, funded through the Social Security payroll tax. The Administration has also embraced the concept of progressive indexing, which would significantly contribute to the solvency of the system by partially indexing the growth of benefits for higher-wage workers to inflation rather than wage growth.

Medicare: The Long-Range Challenge

Medicare finances health insurance for tens of millions of Americans, including most of the nation's seniors and many individuals with disabilities. It is composed of two programs: Hospital Insurance (HI) or Part A, which covers medical expenses relating to hospitalization and other institutional care, and Supplementary Medical Insurance (SMI) or Part B, which pays for physicians' services and other related expenditures. Starting in 2006, Medicare began to offer a voluntary prescription drug benefit, Medicare Part D, which is funded out of the SMI Trust Fund.

Like Social Security, HI is intended to be self-financing through dedicated taxes. According to the Medicare trustees' most recent report, the Trust Fund is projected to be depleted in 2019. Looking at the long run, the Medicare actuaries project a 75-year unfunded obligation of Medicare's HI trust fund of around $11.9 trillion (net present value). However, this measure tells less than half the story, because it does not include the deficiency in Medicare's Part B and Part D programs. The main source of dedicated revenues to the SMI Trust Fund is beneficiary premiums, which generally cover about one-quarter of its expenses. SMI's funding structure creates an enormous financing gap for the program and is the largest contributor to the total Medicare program shortfall over the next 75 years of $34.1 trillion. Extending the horizon to perpetuity increases the total shortfall to $74.4 trillion. SMI's financing gap is covered by an unlimited tap on general revenues. According to the Medicare Trustees' 2007 report, "Within the next ten years, general revenue transfers are expected to constitute the largest single source of income to the Medicare program as a whole—and would add significantly to the Federal Budget pressures."

This bifurcated trust fund structure finances Medicare as if the program offers two separate, unrelated benefits, instead of recognizing that Medicare provides related and complementary health care services to its beneficiaries. The Medicare Prescription Drug, Improvement, and Modernization Act (MMA), which established Part D, also took an important first step toward improving Medicare sustainability by requiring the Medicare Trustees' Report to include a new, comprehensive fiscal analysis of the program's financing that highlights the amount of general revenue transfers used to fund Medicare. If the percent of Medicare funding that is from general fund transfers reaches 45 percent within the current or next six years of the projection (2007–2013), the Trustees issue a finding of "excess general revenue Medicare funding". In their 2007 report, the Trustees found that general revenue funding would first reach the 45 percent level in fiscal year 2013, within the seven-year window. Because this finding has been present in two consecutive Trustees' reports, a "Medicare funding warning" has been triggered. With this trigger, the MMA calls for the President to submit legislation to restore Medicare spending to sustainable levels, but it does not mandate Congressional action.

The Budget proposes to strengthen the MMA provision by modestly slowing the rate of Medicare growth if the MMA threshold is exceeded. The lower growth would be achieved through a four-tenths of a percent reduction to all payments beginning the year the threshold is exceeded. The change would only take effect if the President and Congress fail to agree on legislation to bring Medicare spending back into line with the threshold established by the MMA. The reduction would grow by four-tenths of a percent every year the shortfall continues to occur. This proposal would improve Medicare's sustainability by slowing the rate of growth in spending.

The Social Security and Medicare Trustees' Projections: In their annual reports and related documents, the Social Security and Medicare trustees typically present calculations of the 75-year actuarial imbalance or deficiency for Social Security and Medicare under current-law. The calculation covers current workers and retirees, as well as those projected to join the program within the next 75 years (this is the so-called "open-group"; the "closed-group" covers only current workers and retirees). These estimates measure the present value of each program's future benefits net of future income. They are complementary to the flow projections described in the preceding section, but unlike those projections they do not reflect the Administration's proposals to reform the Medicare program and the effects those proposals would have. More recently, the trustees' reports have included a projection of the deficiency in perpetuity. This is the clearest way to see the total imbalance in both programs.

The present value of the Social Security imbalance over the next 75 years was estimated to be $6.8 trillion as of January 1, 2007. The comparable estimate for Medicare was $34.1 trillion. These estimates exclude the trust fund balances because the balances do not represent a source of funds for the Government from a unified budget perspective. (The estimates in Table 13–3 were prepared by the Social Security and Medicare actuaries, and they are based on the intermediate economic and demographic assumptions used for the 2007 trustees' reports. These differ in some respects from the assumptions used for the long-run budget projections described in the preceding section. Table 13–3 would show a smaller imbalance if the economic assumptions used for the budget had been used for the calculations. In addition, because the estimates are on the basis of current law, they do not reflect the Administration's proposals to reform Medicare. Under the Administration's proposals, the Medicare actuaries estimate that the imbalance would be reduced to about $24 trillion.

Doing the calculations for a 75-year horizon understates the deficiencies, because the 75-year actuarial calculations omit the large deficits that continue to occur beyond the 75th year. The understatement is significant, even though values in the distant future are discounted by a large amount. Since 2004, the Social Security and Medicare actuaries have also presented the actuarial imbalances calculated in perpetuity without assuming a fixed horizon. Table 13–3 shows how much these distant benefits add to the programs' imbalances. For Social Security, the future imbalance in perpetuity is $15.7 trillion and for Medicare it is $74.4 trillion as of January 1, 2007. (Again, the Medicare estimate would be smaller if the effects of the Administration's policy proposals had been included in the calculation.)

The imbalance estimated on a perpetuity basis is the amount that the Government would have to raise in the private capital markets to resolve the program's imbalance permanently (given current assumptions). If nothing else changes, the estimated imbalance will grow every year at approximately the rate of interest, just as an unpaid debt grows with interest each year it remains outstanding. For Social Security this implies an increase of approximately $700 billion in 2007 and growing amounts with every year that the imbalance remains unaddressed.

Social Security: The current deficiency in Social Security is essentially due to the fact that past and current participants will receive more benefits than they have paid for with taxes (calculated in terms of present values). By contrast, future participants—those who are now under age 15 or not yet born—are projected to pay in present value about $0.8 trillion more than they will collect in benefits. In other words, the taxes that future participants are expected to pay will be large enough to cover the benefits due them under current law, but not large enough to cover those benefits plus the benefits promised to current program participants in excess of the taxes paid by current program participants.

Medicare: Extending the horizon to perpetuity shows that the benefits due future participants will eventually exceed projected payroll tax receipts and premiums by a huge margin. The projections into perpetuity shown at the top of Table 13–3 reveal that total Medicare benefits exceed future taxes and premiums by $74.4 trillion in present value. This is due to an expected excess of benefits over taxes for both current participants and for future generations. Unlike Social Security, the imbalance is not simply the inherited result of a pay-as-you-go program that was never fully funded, and which faces a demographic crunch. That is part of the problem, but even more fundamental is the assumption that medical costs continue to rise in excess of general inflation so that medical spending increases relative to total output in the economy.

General revenues have covered about 75 percent of SMI program costs for many years, with the rest being covered by premiums paid by the beneficiaries. In Table 13–3, only the receipts explicitly earmarked for financing these programs have been included. The intragovernmental transfer is not financed by dedicated tax revenues, and the share of general revenues that would have to be devoted to SMI to close the gap increases substantially under current law. Other Government programs also have a claim on these general revenues. From the standpoint of the Government as a whole, only receipts from the public can finance expenditures.

A significant portion of Medicare's actuarial deficiency is caused by the rapid expected increase in future benefits due to rising health care costs. Some, perhaps most, of the projected increase in relative health care costs reflects improvements in the quality of care, although there is also evidence that medical errors, waste, and excessive medical liability claims add needlessly to costs. But even though the projected increases in Medicare spending are likely to contribute to longer life-spans and safer treatments, the financial implications remain the same. As long as medical costs continue to outpace the growth of GDP and other expenditures, as assumed in these projections, the financial pressure on the budget will mount, and that is reflected in the estimates shown in Tables 13–2 and 13–3.

The Trust Funds and the Actuarial Deficiency: The fact that a special account or trust fund exists does not necessarily mean that the Government saved the money recorded there. The trust fund surpluses could have added to national saving if overall government borrowing from the public had actually been reduced because of the trust fund accumulations. But it is impossible to know for sure whether this happened or not.

At the time Social Security or Medicare redeems the debt instruments in the trust funds to pay benefits not covered by income, the Treasury will have to turn to the public capital markets to raise the funds to finance the benefits, just as if the trust funds had never existed. From the standpoint of overall Government finances, the trust funds do not reduce the future burden of financing Social Security or Medicare benefits, and for that reason, the trust funds are not netted against future benefits in Table 13–3. The eventual claim on the Treasury is better revealed by the difference between future benefits and future taxes or premiums.

In any case, trust fund assets remain small in size compared with the programs' future obligations and well short of what would be needed to pre-fund future benefits as indicated by the programs' actuarial deficiencies. Historically, Social Security and Medicare's HI

Table 13–3. SCHEDULED BENEFITS IN EXCESS OF FUTURE TAXES AND PREMIUMS—ACTUARIAL PRESENT VALUES

In Perpetuity as of January 1, in Trillions of Dollars

	2004	2005	2006	2007
Social Security	11.9	12.8	15.3	15.7
Medicare	61.9	68.4	70.8	74.4
Social Security and Medicare	73.8	81.2	86.0	90.3

Over a 75–Year Projection Period as of January 1, in Trillions of Dollars

	2002	2003	2004	2005	2006	2007
Social Security:						
Future benefits less future taxes for those age 62 and over	4.1	4.3	4.5	4.9	5.3	5.9
Future benefits less future taxes for those age 15 to 61	7.2	7.4	8.0	8.7	9.6	10.4
Future benefits less taxes for those age 14 and under and those not yet born	–6.7	–6.8	–7.3	–7.9	–8.5	–9.5
Net present value for present and future participants	4.6	4.9	5.2	5.7	6.4	6.8
Medicare:						
Future benefits less future taxes for those age 65 and over	2.5	2.8	3.8	4.0	4.2	4.4
Future benefits less future taxes for those age 15 to 64	10.4	12.2	20.9	22.4	24.9	24.3
Future benefits less taxes for those age 14 and under and those not yet born	0.4	0.8	3.4	3.6	3.3	5.4
Net present value for present and future participants	13.3	15.8	28.1	29.9	32.3	34.1
Social Security and Medicare:						
Future benefits less future taxes for those who have attained eligibility	6.6	7.1	8.3	8.9	9.5	10.3
Future benefits less future taxes for those over age 15 who have not yet attained eligibility	17.6	19.7	28.9	31.0	34.5	34.7
Future benefits less taxes for those age 14 and under and those not yet born	–6.3	–6.0	–3.9	–4.3	–5.3	–4.1
Net present value for present and future participants	17.8	20.7	33.3	35.6	38.8	40.8

program were financed mostly on a pay-as-you-go basis, whereby workers' payroll taxes were immediately used to pay retiree benefits. For the most part, workers' taxes have not been used to pre-fund their own future benefits, and taxes were not set at a level sufficient to pre-fund future benefits had they been saved.

The Importance of Long-Run Measures in Evaluating Policy Changes: Consider a proposed policy change in which payroll taxes paid by younger workers were reduced by $100 this year while the expected present value of these workers' future retirement benefits were also reduced by $100. The present value of future benefit payments would decrease by the same amount as the reduction in revenue. On a cash flow basis, however, the lost revenue occurs now, while the decrease in future outlays is in the distant future beyond the normal budget window, and the Federal Government must increase its borrowing to make up for the lost revenue in the meantime. If policymakers only focus on the Government's near-term borrowing needs, a reform such as this would appear to worsen the Government's finances, whereas the policy actually has a neutral impact in the long run. Focusing on the Government's near-term borrowing alone, therefore, can lead to a bias against policies that could improve the Federal Government's overall long-run fiscal condition. Taking a longer view of policy changes and considering measures such as those in this chapter can correct for such mistakes.

PART IV—TAX COMPLIANCE, NATIONAL WEALTH, AND SOCIAL INDICATORS

To obtain a full picture of the Government's financial condition it is necessary to examine a broad range of additional information beyond the narrow list of Government-owned assets and liabilities. It is even necessary to consider more information than is contained in the long-term projections of the budget. This final section presents a sample of such additional information. It is intended to provide insight into the full range of resources the Government can draw upon to meet its long-term obligations and also to indicate in a summary way what the Nation obtains in exchange for the resources it provides the Government.

The first piece of additional information is analysis of compliance with the nation's tax laws, the so-called "tax gap." The Government does not collect in a timely manner all of the taxes it is legally owed, as explained in detail below (along with some proposals to narrow the gap). That discussion is followed by an investigation of national wealth and the contributions the Federal Government has made to the wealth of private persons and other levels of government. The final section discusses a range of economic and social indicators.

Improving Tax Fairness and Federal Finances through Better Tax Compliance

The Internal Revenue Service (IRS) collects over 95 percent of total Federal receipts, including $2.7 trillion in 2007. However, not every dollar of tax legally owed is actually paid. The great majority of taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply either because they do not understand their obligations due to the complexity of the tax law or because they seek to avoid those obligations.

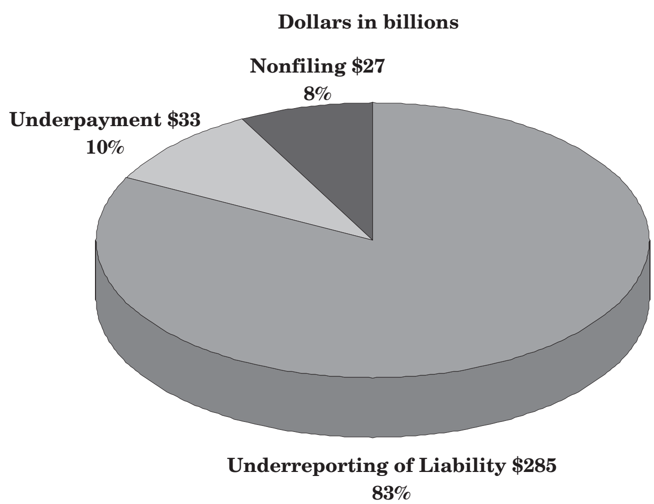
Tax Compliance: In 2006, the IRS released updated results of its first large study in two decades of the difference between taxes owed and taxes actually paid—the "tax gap." The IRS estimated that taxpayers initially underpaid by $345 billion in 2001. This equates to a voluntary compliance rate of 84 percent. Late payments and IRS enforcement action reduced this to a net tax gap of $290 billion, raising the net compliance rate to 86 percent. The Department of the Treasury does not have estimates of the tax gap for the years after 2001. It is possible, however, that lower tax rates and more aggressive enforcement by the IRS have tended to decrease the gap

Due to changes in methodologies, comparisons between the 2001 estimates and those from earlier studies should be made cautiously. However, it does appear that the voluntary compliance rate has not changed much since the 1980s. The IRS previously reported voluntary compliance rates of 87 percent in 1988, 86 percent in 1985, and 84 percent in 1983. While the overall compliance rate seems to have moved relatively little over time, each one percentage point change significantly impacts revenue. A one percentage point improvement would increase revenue by $21 billion per year based on 2001 numbers.

The IRS compliance estimates, primarily based on random audits of individuals and businesses, are not precise, but give a good general sense of the size of the tax gap and patterns in compliance. This sort of information is critical for effectively targeting IRS enforcement programs to yield the greatest improvement with the smallest cost and burden on taxpayers. The IRS' estimates are most accurate for underpayments of known taxes as recorded in IRS financial systems, and for individual income tax compliance studied through the recent random National Research Program (NRP) study. Non-filing estimates come from studies of census data and are somewhat less precise. The weakest portions of the IRS' estimates are in areas where no recent studies have been completed and the IRS is relying on older data (e.g., for partnerships and corporations).

Of the total tax gap, 83 percent comes from underreporting of tax liability (see chart). A significant portion of the gap also comes from underpayment of known tax debts and people who fail to file returns. Individual income taxes, the largest source of Federal receipts, account for 71 percent of the tax gap.

Chart 13-10. Sources of the Gross Tax Gap



The highest compliance rates come in areas where the IRS has good information about income, because it is reported by third parties (e.g., Form W-2 that reports wage income from employers, and Form 1099 that reports various third party payments, including interest from banks). The IRS estimates that 95 percent of income with third-party reporting but no tax withholding (e.g., interest income, dividends) is declared on taxpayer returns. Where there is tax withholding, as in the case of most wages, nearly 99 percent of the amounts reported by payers is declared on taxpayer returns.

Conversely, the rate of underpaid taxes is high for income with little or no third-party reporting. For example, an estimated 43 percent of the tax gap comes from business income that should be reported on individual returns (Forms 1040) but goes unreported to the IRS (see Table 13–4).

Improving Tax Compliance: While the tax gap can likely never be entirely eliminated, reducing the gap by improving compliance is important because non-compliant taxpayers impose unacceptable burdens on other taxpayers and on Federal finances.

Table 13–4. SOURCES OF THE TAX GAP FROM INCOME UNDERREPORTING

	Contribution to the Tax Gap in Dollars	Percent Share of the Overall Tax Gap
Business income underreported by individuals including small business owners	148	43
Non-business income underreporting and improper deductions and credits	88	26
Corporate income underreporting	30	9
Other underreporting	19	6
Total Underreporting	285	84

The challenge is to find ways to improve compliance without unduly burdening compliant taxpayers or the economy. For example, as noted above, income that is reported to the IRS by third parties is claimed on tax returns at a far higher rate than other income. While requiring third-party reporting of all income would likely raise compliance levels, it would necessitate burdensome new reporting requirements for individuals and businesses. However, targeted income reporting requirements in areas where the IRS is aware of abuse, such as requiring the reporting of automated payments to support business income claims, could increase compliance and help reduce the tax gap.

Another approach to improving compliance would be to change the tax code to remove tax benefits wherever there is the potential for abuse. For example, generally a taxpayer making payments to a trade or business totaling $600 or more for services or determinable gains in the course of a year is required to send an information return to the IRS. However, there are certain exceptions for payments to corporations that have created compliance loopholes. Elimination of these exceptions by changing the tax code could increase compliance and help reduce the tax gap. Finally, much higher audit rates might improve compliance, but would be extremely expensive and unless properly targeted could be unduly burdensome to honest taxpayers.

In 2006, the Department of the Treasury released a comprehensive strategy to improve tax compliance.[4] The strategy builds upon the demonstrated experience and current efforts of the Treasury Department and IRS to improve compliance. The IRS has developed a carefully targeted plan for reducing the tax gap, which is aligned with the strategy and is detailed in a recent report on improving voluntary compliance.[5] The Budget provides a $358 million initiative in the IRS to more vigorously implement this key strategy. Components of the strategy include:

Reduce Opportunities for Evasion: The Administration will pursue carefully targeted tax law changes to promote compliance while causing minimal taxpayer burden and IRS cost increases. The Budget includes 16 legislative proposals, such as expanding third party information reporting where it can be done with acceptable levels of taxpayer burden (e.g., requiring brokers to report the cost basis for certain securities' sales). (See chapter 17, "Federal Receipts" for a full description of these legislative proposals.)

Multi-Year Commitment to Research: Improved research on tax gap causes and potential remedies, and compliance rates for different segments of taxpayers, will help the IRS target its enforcement and service programs to achieve the greatest possible impact at the lowest cost

Investments in Information Technology: Modernized computer systems will give IRS staff the tools they need to improve efficiency, service and compliance. The IRS now receives more than half of all individual tax returns electronically, and aims to continue increasing this rate.

Improve Compliance Activities: Through re-engineering and selected funding increases the IRS will improve the effectiveness of its enforcement efforts. Enforcement efforts yielded a record $59.2 billion in 2007, an increase of 20 percent over 2006.

Taxpayer Service: Improved service will help taxpayers avoid unintentional errors and will make filing easier. Improved telephone service, new internet tools, and increases in electronic filing have already helped taxpayers file more accurate returns with less effort. The IRS answers more than 80 percent of all phone calls with answer accuracy rates greater than 90 percent. This is a significant improvement from the 1990s, when approximately 60–65 percent of calls were answered with accuracy rates around 80 percent.

Reform and Simplify the Tax Law: Simplifying the tax law will reduce unintentional errors caused by a lack of understanding. Simplification will also reduce the opportunities for intentional evasion and make it easier for the IRS to administer the tax laws.

Coordinate with Partners and Stakeholders: Closer coordination is needed between the IRS and State and foreign governments to share information and compliance strategies. Closer coordination is also needed with practitioner organizations, including bar and accounting associations, to maintain and improve mechanisms to ensure that advisors provide appropriate tax advice.

[4] Treasury Department, A Comprehensive Strategy for Reducing the Tax Gap (September 26, 2006). See: *http://www.treas.gov/press/releases/reports/otptaxgapstrategy%20final.pdf*

[5] IRS, Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance (August 2, 2007). See: *http://www.irs.gov/pub/irs-news/tax_gap_report_final_080207_linked.pdf*

The IRS also relies on volunteer groups to serve taxpayer needs, and in 2007 the IRS added 16 new Low Income Taxpayer Clinics where volunteers help taxpayers who cannot afford representation obtain access to competent assistance in meeting their obligations.

Collectively these efforts will reduce the tax gap and improve the fiscal situation of the Government. Equally important, better compliance will improve the fairness of the tax system by ensuring all taxpayers pay their fair share. Implementation depends on effective IRS leadership, to improve factors such as technology investments and reengineering processes, as well as the active support of the Congress to implement tax law changes and provide needed funding for these improvements.

National Wealth

The Government relies on private wealth to support its activities. It also contributes to that wealth. Unlike a private corporation, the Federal Government routinely invests in ways that do not add directly to its assets. For example, Federal grants are frequently used to fund capital projects by State or local governments for highways and other purposes. Such investments are valuable, but they are not owned by the Federal Government and would not show up on a balance sheet for the Federal Government. It is true, of course, that to the extent these investments encourage economic growth, they augment future tax receipts. The return on investment that comes back to the Government in the form of higher taxes, however, is far less than what a private investor would require before undertaking a similar investment.

The Federal Government also supports education and research and development (R&D). These outlays contribute to future productivity and are analogous to investments in physical capital. Indeed, economists have computed stocks of human and knowledge capital to reflect the accumulation of such investments. Nonetheless, such hypothetical capital stocks are obviously not owned by the Federal Government, nor would they appear on a balance sheet.

To show the importance of these kinds of issues, Table 13–5 presents a national balance sheet. It includes estimates of national wealth classified into three categories: physical assets, education capital, and R&D capital. The Federal Government has made contributions to each of these types of capital, and these contributions are shown separately in the table. At the same time, the private wealth shown in Table 13–5 generates future income and tax receipts, which finance future public activities. The Nation's wealth sets the ultimate limit on the resources available to the Government.

The table shows that Federal investments are responsible for about 7 percent of total national wealth including education and research and development. This may seem like a small fraction, but it represents a large volume of capital: $7.5 trillion. The Federal contribution is down from 10 percent in 1960. Much of this decline reflects the relative shrinkage in the stock of defense capital, which has fallen from around 34 percent of GDP in 1960 to under 6 percent in 2007.

Physical Assets: The physical assets in the table include private stocks of plant and equipment, office buildings, residential structures, land, and the Government's physical assets such as military hardware and highways. Automobiles and consumer appliances are also included in this category. The total amount of such capital is vast, $64.8 trillion in 2007, consisting of $55.1 trillion in private physical capital and $9.7 trillion in public physical capital (including capital funded by State and local governments); by comparison, GDP was around $14 trillion in 2007. The Federal Government's contribution to this stock of capital includes its own physical assets of $2.8 trillion plus $1.5 trillion in accumulated grants to State and local governments for capital projects. The Federal Government has financed over 20 percent of all the physical capital held by other levels of government.

Education Capital: Economists have developed the concept of human capital to reflect the notion that individuals and society invest in people as well as in physical assets. Investment in education is a good example of how human capital is accumulated. Table 13–5 includes an estimate of the stock of capital represented by the Nation's investment in formal education and training. The estimate is based on the cost of replacing the years of schooling embodied in the U.S. population aged 15 and over; in other words, the goal is to measure how much it would cost to reeducate the U.S. workforce at today's prices (rather than at the original cost). This is more meaningful economically than the historical cost of schooling, and is comparable to the methods used to estimate the physical capital stocks presented earlier.

Although this is a relatively crude measure, it does provide a rough order of magnitude for the current value of the investment in education. According to this measure, the stock of education capital amounted to $52 trillion in 2007, of which about 3 percent was financed by the Federal Government. The total stock of education capital was roughly the same in value as the Nation's private stock of physical capital. The main investors in education capital have been State and local governments, parents, and students themselves.

Even broader concepts of human capital have been proposed. Not all useful training occurs in a schoolroom or in formal training programs at work. Much informal learning occurs within families or on the job, but measuring its value is very difficult. Labor compensation, however, amounts to about two-thirds of national income with the other third attributed to capital and thinking of total labor income as the product of human capital suggests that the total value of human capital would be two times the estimated value of physical capital if human capital earned a similar rate of return. Thus, the estimates offered here are in a sense conservative, because they reflect only the costs of acquiring formal education and training, which is why they are referred to as education capital rather than human capital. They constitute that part of total human capital that can be attributed to formal education and training.

Research and Development Capital: Research and development can also be thought of as an investment, because R&D represents a current expenditure that is made in the expectation of earning a future return. After adjusting for depreciation, the flow of R&D investment can be added up to provide an estimate of the current R&D stock.[6] That stock is estimated to have been $3.7 trillion in 2007. Although this represents a large amount of research, it is a relatively small portion of total National wealth. Of this stock, 38 percent was funded by the Federal Government.

Liabilities: When considering how much the United States owes as a Nation, the debts that Americans owe to one another cancel out. Table 13–5 only shows net totals for the Nation. Gross debt is important even though it does not appear in Table 13–5. The amount of debt owed by Americans to other Americans can exert both positive and negative effects on the economy. Americans' willingness and ability to borrow have helped fuel the current expansion by supporting consumption and housing purchases. On the other hand, unsound lending practices could be a risk to future growth, if they undermine confidence in borrowers' ability to repay their debts.

Table 13–5. NATIONAL WEALTH

(As of the end of the fiscal year, in trillions of 2007 dollars)

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006	2007
ASSETS												
Publicly Owned Physical Assets:												
Structures and Equipment	2.3	2.6	3.3	4.0	4.3	4.5	5.0	5.4	6.2	7.6	8.1	8.1
Federally Owned or Financed	1.3	1.4	1.6	1.8	1.8	2.1	2.2	2.4	2.4	2.6	2.7	2.7
Federally Owned	1.2	1.2	1.2	1.2	1.1	1.3	1.3	1.3	1.2	1.2	1.2	1.2
Grants to State & Local Governmnts	0.2	0.2	0.4	0.6	0.7	0.8	0.9	1.0	1.2	1.4	1.5	1.5
Funded by State & Local Governmnts	1.0	1.2	1.7	2.3	2.5	2.4	2.7	3.1	3.8	5.0	5.4	5.3
Other Federal Assets	0.5	0.5	0.5	0.6	0.9	1.0	0.9	0.6	0.9	1.4	1.5	1.6
Subtotal	2.8	3.1	3.8	4.7	5.2	5.5	5.8	6.1	7.1	9.0	9.6	9.7
Privately Owned Physical Assets:												
Reproducible Assets	7.9	9.1	11.1	14.3	18.6	19.7	22.5	24.9	30.3	36.8	38.0	38.2
Residential Structures	3.1	3.6	4.3	5.5	7.5	7.7	8.8	10.1	12.6	16.8	17.3	17.4
Nonresidential Plant & Equipment	3.1	3.5	4.5	5.9	7.6	8.4	9.4	10.2	12.4	14.2	14.8	14.8
Inventories	0.8	0.9	1.0	1.3	1.6	1.5	1.6	1.6	1.8	1.9	2.0	2.0
Consumer Durables	1.0	1.1	1.4	1.6	2.0	2.2	2.7	3.0	3.6	3.9	3.9	4.0
Land	2.4	2.8	3.2	4.2	6.4	7.3	7.6	5.6	8.7	13.7	15.1	16.9
Subtotal	10.3	11.9	14.4	18.5	25.0	27.1	30.1	30.6	39.0	50.4	53.2	55.1
Education Capital:												
Federally Financed	0.1	0.1	0.3	0.4	0.6	0.7	0.9	1.1	1.4	1.6	1.7	1.8
Financed from Other Sources	6.5	8.8	11.9	15.0	19.2	22.5	27.8	32.7	41.8	47.6	48.5	50.2
Subtotal	6.6	8.9	12.2	15.5	19.8	23.2	28.6	33.7	43.2	49.2	50.2	51.9
Research and Development Capital:												
Federally Financed R&D	0.2	0.4	0.6	0.6	0.7	0.8	0.9	1.1	1.2	1.3	1.4	1.4
R&D Financed from Other Sources	0.2	0.2	0.3	0.4	0.5	0.7	1.0	1.3	1.7	2.1	2.2	2.3
Subtotal	0.3	0.6	0.9	1.1	1.2	1.5	1.9	2.3	2.9	3.4	3.6	3.7
Total Assets	20.0	24.6	31.2	39.7	51.3	57.3	66.4	72.7	92.2	112.1	116.5	120.4
Net Claims of Foreigners on U.S. (+)	–0.1	–0.2	–0.2	–0.1	–0.4	0.1	0.9	1.7	3.4	5.9	7.6	8.3
Net Wealth	20.2	24.8	31.4	39.8	51.7	57.2	65.5	71.0	88.9	106.1	108.9	112.1
ADDENDA:												
Per Capita Wealth (thousands of 2007 dollars)	112	128	153	185	227	240	261	266	314	357	363	370
Ratio of Wealth to GDP (in percent)	672	657	695	779	844	783	767	735	754	800	802	802
Total Federally Funded Capital (trils 2007 dollars)	2.1	2.4	2.9	3.4	4.0	4.6	4.9	5.1	5.8	7.0	7.3	7.6
Percent of National Wealth	10.4	9.7	9.3	8.6	7.7	8.0	7.5	7.2	6.5	6.6	6.7	6.8

[6] R&D depreciates in the sense that the economic value of applied research and development tends to decline with the passage of time, as still newer ideas move the technological frontier.

Table 13–6. TRENDS IN NATIONAL WEALTH

(Average Annual Rates in Percent)

	1960–07	1960–1973	1973–1995	1995–2007
Real GDP	3.3	4.3	2.8	3.1
Net National Wealth	3.7	4.6	3.1	3.9
Private Physical Wealth	3.6	3.9	2.7	5.0
Nonresidential Plant and Equipment	3.4	4.1	3.1	3.2
Residential Structures	3.7	4.0	3.1	4.6
Consumer Durables	3.1	3.6	3.2	2.3
Public Physical Wealth	2.7	3.3	1.6	3.9
Net Education	4.5	5.9	4.1	3.7
Net R&D	5.2	8.6	3.9	3.9

The only debts that show up in Table 13–5 are the debts Americans owe to foreigners for the investments that foreigners have made in the United States. America's net foreign debt has been increasing rapidly in recent years because of the imbalance in the U.S. current account. Last year, the current account deficit declined for the first time in several years, but it remains very high compared with historical experience. Even so, the size of the net foreign debt is relatively small compared with the total stock of U.S. assets. In 2007, it amounted to 7 percent of total assets including education and R&D capital.

Federal debt does not appear explicitly in Table 13–5 because much of it consists of claims held by Americans; only that portion of the Federal debt which is held by foreigners is included along with the other debts to foreigners. Comparing the Federal Government's net liabilities with total national wealth however, does provide another indication of the relative magnitude of the imbalance in the Government's accounts. Federal net liabilities, as reported in Table 13–1, amounted to 6 percent of net U.S. wealth as shown in Table 13–5. Prospectively, however, Federal liabilities are a much larger share of national wealth, as indicated by the long-run projections described in Part III.

Trends in National Wealth

The net stock of wealth in the United States at the end of 2007 was $112 trillion, about eight times the size of GDP. Since 1960, it has increased in real terms at an average annual rate of 3.7 percent per year. It grew very rapidly from 1960 to 1973, at an average annual rate of 4.6 percent per year, slightly faster than real GDP grew over the same period. Between 1973 and 1995 growth slowed, as real net wealth grew at an average rate of just 3.1 percent per year, which paralleled the slowdown in real GDP growth over this period. Since 1995 the rate of growth in U.S. real wealth has picked up. Net wealth has been growing at an average rate of 3.9 percent since 1995. Productivity growth has also accelerated since 1995, following a slowdown from 1973 to 1995.

The net stock of privately owned nonresidential plant and equipment accounts for about 27 percent of all privately owned physical assets. In real terms, it grew 3.4 percent per year on average from 1960 to 2007. It grew especially rapidly from 1960 to 1973, at an average rate of 4.1 percent per year. Since 1973 it has grown more slowly, averaging around 3.1 percent per year. Plant and equipment has grown at roughly the same rate over the last ten years compared with 1973–1995. The real value of privately owned residential structures and the land they occupy have grown much more rapidly in real value since 1995 than from 1973 to 1995, while the stock of consumer durables has grown less rapidly.

The accumulation of education capital has averaged 4.5 percent per year since 1960. Its growth also slowed down between 1973 and 1995. It grew at an average rate of 5.9 percent per year in the 1960s, 2.0 percentage points faster than the average rate of growth in private physical capital during the same period. Since 1995, education capital has grown at a 3.7 percent annual rate. This reflects both the extra resources devoted to schooling in this period, and the fact that such resources have been increasing in economic value. R&D stocks have grown at an average rate of 3.8 percent per year since 1995.

Other Federal Influences on Economic Growth

Federal investment decisions, as reflected in Table 13–5, obviously are important, but the Federal Government also affects wealth in ways that cannot be easily captured in a formal presentation. The Federal Reserve's monetary policy affects the rate and direction of capital formation, and Federal regulatory and tax policies also affect how capital is invested, as do the Federal Government's credit and insurance policies.

TABLE 13–7. ECONOMIC AND SOCIAL INDICATORS

Calendar Years	1960	1970	1980	1990	1995	2000	2005	2006	2007
Economic:									
Living Standards:									
Real GDP per person (2000 dollars) [1]	13,840	18,392	22,666	28,429	30,128	34,755	37,052	37,752	38,238
average annual percent change (5–year trend)	0.6	2.3	2.6	2.3	1.2	2.9	1.3	1.7	1.9
Real Disposable Personal Income Per Capita (2000 dollars)	9,735	13,563	16,940	21,281	22,153	25,469	27,436	28,005	28,664
average annual percent change (5–year trend)	1.2	3.2	2.1	1.8	0.8	2.8	1.5	1.7	1.8
Median Income: All Households (2006 dollars)	N/A	39,604	41,258	44,778	44,764	49,163	47,845	48,201	N/A
average annual percent change (5–year trend)	N/A	N/A	1.0	1.2	0.0	1.9	–0.5	0.0	N/A
Income Share of Lower 60 percent of All Households	31.8	32.3	31.2	29.3	28.0	27.3	26.6	26.5	N/A
Poverty Rate (%) [2]	22.2	12.6	13.0	13.5	13.8	11.3	12.6	12.3	N/A
Economic Security:									
Civilian Unemployment (%)	5.5	4.9	7.1	5.5	5.6	4.0	5.1	4.6	4.6
CPI-U (percent Change)	1.7	5.7	13.5	5.4	2.8	3.4	3.4	3.2	2.8
Payroll Employment Increase (millions)	–0.4	–0.4	0.3	0.3	2.2	1.9	2.5	2.3	1.3
Managerial or Professional Jobs (percent of civilian employment)	N/A	N/A	N/A	29.2	32.0	33.8	34.7	34.9	35.5
Wealth Creation:									
Net National Saving Rate (percent of GDP) [3]	10.6	8.3	7.4	4.4	4.1	5.9	1.0	1.9	1.5
Innovation:									
Patents Issued to U.S. Residents (thousands)	42.3	50.6	40.8	52.8	64.4	96.9	82.6	102.2	N/A
Multifactor Productivity (average 5 year percent change)	1.0	0.8	0.8	0.6	0.6	1.1	1.8	1.9	N/A
Nonfarm Output per Hour (average 5 year percent change) [3]	1.8	2.1	1.1	1.6	1.5	2.5	3.0	2.7	2.2
Environment:									
Air Quality:									
Nitrogen Oxide Emissions (millions of tons)	18	27	27	26	25	23	19	N/A	N/A
Sulfur Dioxide Emissions (millions of tons)	22	31	26	23	19	16	15	N/A	N/A
Carbon Monoxide (millions of tons)	N/A	197	178	144	120	102	89	N/A	N/A
Lead Emissions (thousands of tons)	N/A	221	74	5	4	3	N/A	N/A	N/A
Greenhouse Gas Emissions (mil metric tons cabron equivalent)	N/A	N/A	N/A	6,147	6,471	6,978	7,181	7,076	N/A
Water Quality:									
Population Served by Secondary Treatment or Better (millions)	N/A	85	N/A	162	174	179	N/A	N/A	N/A
Social:									
Families:									
Children Living with Mother Only (percent of all children)	9.2	11.6	18.6	21.6	24.0	22.3	23.4	24.0	N/A
Safe Communities:									
Violent Crime Rate (per 100,000 population) [4]	160.0	364.0	597.0	729.6	684.5	506.5	469.0	473.5	N/A
Murder Rate (per 100,000 population) [4]	5.1	7.8	10.2	9.4	8.2	5.5	5.6	5.7	N/A
Murders (per 100,000 Persons Age 14 to 17) [4]	N/A	N/A	5.9	9.8	11.0	4.8	4.8	N/A	N/A
Health:									
Infant Mortality (per 1000 Live Births)	26.0	20.0	12.6	9.2	7.6	6.9	6.8	6.6	N/A
Low Birthweight [<2,500 gms] Babies (%)	7.7	7.9	6.8	7.0	7.3	7.6	8.2	8.3	N/A
Life Expectancy at birth (years)	69.7	70.8	73.7	75.4	75.8	77.0	77.9	N/A	N/A
Cigarette Smokers (percent population 18 and older)	N/A	39.2	33.0	25.3	24.6	23.1	20.9	20.8	N/A
Overweight (percent population 20–74 with Body-Mass Index) greater than 2.5)	44.5	47.5	47.2	54.6	60.7	65.0	66.3	66.3	N/A
Learning:									
High School Graduates (percent of population 25 and older)	44.6	55.2	68.6	77.6	81.7	84.1	85.2	85.5	N/A
College Graduates (percent of population 25 and older)	8.4	11.0	17.0	21.3	23.0	25.6	27.6	28.0	N/A
National Assessment of Educational Progress [5]									
Reading 17–year olds	N/A	N/A	285.0	290.0	288.0	287.4	N/A	N/A	N/A
Mathematics 17–year olds	N/A	N/A	299.0	305.0	306.5	307.8	N/A	N/A	N/A
Participation:									
Individual Charitable Giving per Capita (2000 dollars)	281	381	373	465	449	692	652	N/A	N/A
(by election year)	**(1960)**	**(1972)**	**(1980)**	**(1984)**	**(1988)**	**(1992)**	**(2000)**	**(2004)**	....
Voting for President (percent eligible population)	62.8	55.1	52.8	53.3	50.3	55.2	50.3	55.5	....

[1] Forecast data are used for the fourth quarter of 2007.
[2] The poverty rate does not reflect noncash government transfers such as Medicaid or food stamps.
[3] 2007 through Q3 only.
[4] Not all crimes are reported, and the fraction that go unreported may have varied over time.
[5] Data for some years are interpoated.

Social Indicators

There are certain broad responsibilities that are unique to the Federal Government. Especially important are preserving national security, fostering healthy economic conditions including sound economic growth, promoting health and social welfare, and protecting the environment. Table 13–7 offers a rough cut of information that can be useful in assessing how well the Federal Government has been doing in promoting the domestic portion of these general objectives.

The indicators shown in Table 13–7 are only a subset drawn from the vast array of available data on conditions in the United States. In choosing indicators for this table, priority was given to measures that were consistently available over an extended period. Such indicators make it easier to draw comparisons and establish trends. In some cases, however, this meant choosing indicators with significant limitations.

The individual measures in this table are influenced to varying degrees by many Government policies and programs, as well as by external factors beyond the Government's control. They do not measure the outcomes of Government policies, because they generally do not show the direct results of Government activities, but they do provide a quantitative measure of the progress or lack of progress toward some of the ultimate values that Government policy is intended to promote.

Such a table can serve two functions. First, it highlights areas where the Federal Government might need to modify its current practices or consider new approaches. Where there are clear signs of deteriorating conditions, corrective action might be appropriate. Second, the table provides a context for evaluating other data on Government activities. For example, Government actions that weaken its own financial position may be appropriate when they promote a broader social objective. The Government cannot avoid making such trade-offs because of its size and the broad ranging effects of its actions. Monitoring these effects and incorporating them in the Government's policy making is a major challenge.

Some of the trends in these indicators turned around in the 1990s. Perhaps, most notable has been the turnaround in the crime rate. After reaching a peak in the early 1990s, violent crime fell by a third. The turnaround was especially dramatic in the murder rate, which has been lower since 1998 than at any time since the 1960s, although the last three years have seen an uptick. The 2001 recession had a negative effect on some of these indicators: unemployment rose and real GDP growth declined, but as the economy recovered income growth revived. Indeed, productivity growth, the best indicator of future changes in the standard of living, has continued to grow at the higher rate reached in the late 1990s.

TECHNICAL NOTE: SOURCES OF DATA AND METHODS OF ESTIMATING

Long-Range Budget Projections

The long-range budget projections are based on demographic and economic assumptions. A simplified model of the Federal budget, developed at OMB, is used to compute the budgetary implications of these assumptions.

Demographic and Economic Assumptions: For the years 2008–2018, the assumptions are drawn from the Administration's economic projections used for the 2009 Budget. These budget assumptions reflect the President's policy proposals. The economic assumptions are extended beyond this interval by holding inflation, interest rates, and the unemployment rate constant at the levels assumed in the final year of the budget forecast. Population growth and labor force growth are extended using the intermediate assumptions from the 2007 Social Security trustees' report. The projected rate of growth for real GDP is built up from the labor force assumptions and an assumed rate of productivity growth. Productivity growth is assumed to equal the average rate of growth in the Budget's economic assumptions.

- CPI inflation holds stable at 2.3 percent per year; the unemployment rate is constant at 4.8 percent; and the yield on 10-year Treasury notes is steady at 5.3 percent.
- Real GDP per hour, a measure of productivity, grows at the same average rate as in the Administration's medium-term projections—2.2 percent per year.
- Consistent with the demographic assumptions in the trustees' reports, U.S. population growth slows from around 1 percent per year to about half that rate by 2030, and slower rates of growth beyond that point. Annual population growth is only 0.3 percent at the end of the projection period in 2080.
- Real GDP growth declines because of the slowdown in population growth and the increase in the population over age 65, who supply less work effort than younger people do. Historically, real GDP has grown at an average yearly rate of 3.4 percent. In these projections, average real GDP growth declines to around 2.5 percent per year.

The economic and demographic projections described above are set by assumption and do not automatically change in response to changes in the budget outlook. This is unrealistic, but it simplifies comparisons of alternative policies.

Budget Projections: For the period through 2013, receipts follow the budget's policy projections. After 2013, receipts are assumed to return gradually to their share of GDP over the last 40 years, 18.3 percent, and to remain at that lower share over the long run. Discretionary spending follows the policies in the Budget over the next ten years and grows at the rate of growth in nominal GDP afterwards. Other spending also aligns with the Budget through the budget horizon, except for the proposal to incorporate personal accounts in Social Security. Long-run Social Security spending is projected by the Social Security actuaries using this Chapter's long-range assumptions. Medicare benefits are projected based on the estimates in the 2007 Medicare trustees' report, adjusted for differences in the assumed inflation rate and the growth rate in real GDP per capita, and further adjusted for the estimated long-run effects of the Administration's policy proposals. Federal pensions are derived from the most recent actuarial forecasts available at the time the budget was prepared, repriced using Administration inflation assumptions. Medicaid outlays are based on the economic and demographic projections in the model. Other entitlement programs are projected based on rules of thumb linking program spending to elements of the economic and demographic projections such as the poverty rate.

Federally Owned Assets and Liabilities

Financial Assets: The principal source of data is the Federal Reserve Board's Flow-of-Funds Accounts.

Fixed Reproducible Capital: Estimates were developed from the OMB historical data base for physical capital outlays and software purchases. The data base extends back to 1940 and was supplemented by data from other selected sources for 1915–1939. The source data are in current dollars. To estimate investment flows in constant dollars, it was necessary to deflate the nominal investment series. This was done using chained price indexes for Federal investment from the National Income and Product Accounts. The resulting capital stocks were aggregated into nine categories and depreciated using geometric rates roughly following those used by the Bureau of Economic Analysis in its estimates of physical capital stocks.

Fixed Nonreproducible Capital: Historical estimates for the value of Federal land holdings in the period 1960–1985 were drawn from estimates in Michael J. Boskin, Marc S. Robinson, and Alan M. Huber, "Government Saving, Capital Formation and Wealth in the United States, 1947–1985," published in *The Measurement of Saving, Investment, and Wealth*, edited by Robert E. Lipsey and Helen Stone Tice (The University of Chicago Press, 1989). Estimates were updated using changes in the value of private land from the Flow-of-Funds Balance Sheets and from the Agriculture Department for farm land. The value of Federal oil and natural gas deposits were based on data for proved reserves from the Department of Energy valued at contemporary market prices for oil and gas.

Inventories: Recent years data are from the *Financial Report of the United States Government* . For the period prior to 1995, data are from the Bureau of Economic Analysis.

Debt Held by the Public: Treasury data.

Insurance and Guarantee Liabilities: Sources of data are the OMB Pension Guarantee Model and OMB estimates based on program data. Historical data on liabilities for deposit insurance were also drawn from CBO's study, The Economic Effects of the Savings and Loan Crisis, issued January 1992.

Pension and Post-Employment Health Liabilities: The accrued liabilities for Federal retiree pensions and retiree health insurance along with the liability for Veterans disability compensation were derived from the *Financial Report of the United States Government* (and the Consolidated Financial Statement for some earlier years). Prior to 1976, the values were extrapolated.

Other Liabilities: The source of data for trade payables and miscellaneous liabilities is the Federal Reserve's Flow-of-Funds Accounts. The *Financial Report of the United States Government* was the source for benefits due and payable.

Environmental Liabilities: The source of data for environmental liabilities was the *Financial Report of the United States Government* for 2007 and previous years. Prior to 1994, the estimates were extrapolated assuming a constant ratio to GDP.

National Balance Sheet

Publicly Owned Physical Assets: Basic sources of data for the federally owned or financed stocks of capital are the Federal investment flows described in Chapter 6. Federal grants for State and local government capital are added, together with adjustments for inflation and depreciation in the same way as described above for direct Federal investment. Data for total State and local government capital come from the revised capital stock data prepared by the Bureau of Economic Analysis extrapolated for 2007.

Privately Owned Physical Assets: Data are from the Flow-of-Funds national balance sheets and from the private net capital stock estimates prepared by the Bureau of Economic Analysis extrapolated for 2007 using investment data from the National Income and Product Accounts.

Education Capital: The stock of education capital is computed by valuing the cost of replacing the total years of education embodied in the U.S. population 15 years of age and older at the current cost of providing schooling. The estimated cost includes both direct expenditures in the private and public sectors and an estimate of students' forgone earnings, i.e., it reflects the opportunity cost of education. Estimates of students' forgone earnings are based on the minimum wage for high-school students and year-round, full-time earnings of 18–24 year olds for college students. These year-round earnings are reduced by 25 percent because students are usually out of school three months of the year. Yearly earnings by age and educational attainment are from the Bureau of the Census.

For this presentation, Federal investment in education capital is a portion of the Federal outlays included in the conduct of education and training. This portion includes direct Federal outlays and grants for elementary, secondary, and vocational education and for higher education. The data exclude Federal outlays for physical capital at educational institutions because these outlays are classified elsewhere as investment in physical capital. The data also exclude outlays under the GI Bill; outlays for graduate and post-graduate education spending in HHS, Defense and Agriculture; and most outlays for vocational training. The Federal share of the total education stock in each year is estimated by averaging the prior years' shares of Federal education outlays in total education costs.

Data on investment in education financed from other sources come from educational institution reports on the sources of their funds, published in U.S. Department of Education, Digest of Education Statistics. Nominal expenditures were deflated by the implicit price deflator for GDP to convert them to constant dollar values. Education capital is assumed not to depreciate, but to be retired when a person dies. An education capital stock computed using this method with different source data can be found in Walter McMahon, "Relative Returns to Human and Physical Capital in the U.S. and Efficient Investment Strategies," *Economics of Education Review*, Vol. 10, No. 4, 1991. The method is described in detail in Walter McMahon, *Investment in Higher Education, Lexington Books*, 1974.

Research and Development Capital: The stock of R&D capital financed by the Federal Government was developed from a data base that measures the conduct of R&D. The data exclude Federal outlays for physical capital used in R&D because such outlays are classified elsewhere as investment in federally financed physical capital. Nominal outlays were deflated using the GDP deflator to convert them to constant dollar values.

Federally funded capital stock estimates were prepared using the perpetual inventory method in which annual investment flows are cumulated to arrive at a capital stock. This stock was adjusted for depreciation by assuming an annual rate of depreciation of 10 percent on the estimated stock of applied research and development. Basic research is assumed not to depreciate. These are the same assumptions used in a study published by the Bureau of Labor Statistics estimating the R&D stocks financed by private industry (U.S. Department of Labor, Bureau of Labor Statistics, "The Impact of Research and Development on Productivity Growth," Bulletin 2331, September 1989). Chapter 6 of this volume contains additional details on the estimates of the total federally financed R&D stock, as well as its national defense and nondefense components.

A similar method was used to estimate the stock of R&D capital financed from sources other than the Federal Government. The component financed by universities, colleges, and other nonprofit organizations is estimated based on data from the National Science Foundation, Surveys of Science Resources. The industry-financed R&D stock component is estimated from that source and from the U.S. Department of Labor, "The Impact of Research and Development on Productivity Growth," Bulletin 2331, September 1989.

Experimental estimates of R&D capital stocks have been prepared by BEA. The results are described in "A Satellite Account for Research and Development," *Survey of Current Business* , November 1994. These BEA estimates are lower than those presented here primarily because BEA assumes that the stock of basic research depreciates, while the estimates in Table 13–4 assume that basic research does not depreciate. BEA also assumed a slightly higher rate of depreciation for applied research and development, 11 percent, compared with the 10 percent rate used here.

Sources of Data and Assumptions for Estimating Social Indicators

The main sources for the data in this table are the Government statistical agencies. The data are all publicly available, and can be found in such general sources as the annual *Economic Report of the President* and the *Statistical Abstract of the United States*, or from the respective agencies' web sites.

14. NATIONAL INCOME AND PRODUCT ACCOUNTS

The National Income and Product Accounts (NIPAs) are an integrated set of statistics prepared by the Department of Commerce that measure aggregate U.S. economic activity. Because the NIPAs include Federal transactions and are widely used in economic analysis, it is important to understand the differences between the NIPAs' distinctive presentation of Federal transactions and that of the budget.

The main purpose of the NIPAs is to measure the Nation's total production of goods and services, known as gross domestic product (GDP), and the incomes generated in its production. GDP excludes intermediate product to avoid double counting. Government consumption expenditures along with government gross investment—State and local as well as Federal—are included in GDP as part of final output, together with personal consumption expenditures, gross private domestic investment, and net exports of goods and services (exports minus imports).

Not all government expenditures are counted in GDP. Social benefits, grants to State and local governments, subsidies, and interest payments—are not purchases of final output and are therefore not included in GDP; however, these transactions are recorded in the NIPA government account that records current receipts and expenditures (including depreciation on government gross investment) because all of these affect the government's claim on economic resources.

Federal transactions are included in the NIPAs as part of the government sector.[1] The Federal subsector is designed to measure certain important economic effects of Federal transactions in a way that is consistent with the conceptual framework of the entire set of integrated accounts. The NIPA Federal subsector is not itself a budget, because it is not a financial plan for proposing, determining, and controlling the fiscal activities of the Government. For example, it omits from its current receipts and current expenditures certain "capital transfers" that are recorded in the budget. NIPA concepts also differ in many other ways from budget concepts, and therefore the NIPA presentation of Federal finances is significantly different from that of the budget.

Differences between the NIPAs and the Budget

Federal transactions in the NIPAs are measured according to NIPA accounting concepts and as a result they differ from the budget in netting and grossing, timing, and coverage. These differences cause current receipts and expenditures in the NIPAs to differ from total receipts and outlays in the budget, albeit by relatively small amounts.[2] Differences in timing and coverage also cause the NIPA measure of net Federal Government saving to differ from the budget surplus or deficit. Unlike timing and coverage differences, netting and grossing differences have equal effects on receipts and expenditures and thus have no effect on net Government saving. The NIPAs also combine transactions into different categories from those used in the budget.

Netting and grossing differences arise because the budget records certain transactions as offsets to outlays that are recorded as current receipts in the NIPAs (or vice versa). The budget treats as governmental receipts all income that comes to the Government due to its sovereign powers—mainly, but not exclusively, taxes. The budget offsets against outlays any income that arises from voluntary business-type transactions with the public. The NIPAs generally follow this concept as well, and income to Government revolving accounts (such as the Government Printing Office) is offset against their expenditures. However, the NIPAs have a narrower definition of "business-type transactions" than does the budget. Rents and royalties, and some regulatory or inspection fees, which are classified as offsets to outlays in the budget, are recorded in the NIPAs as Government receipts (income receipts on assets and current transfer receipts, respectively). The NIPAs include Medicare premiums as Government receipts, while the budget classifies them as business-type transactions (offsetting receipts). In addition, the NIPAs treat the net surplus of Government enterprises as a component of current receipts.

In the budget, any intragovernmental income paid from one account to another is offset against outlays rather than being recorded as a receipt so that total outlays and receipts measure only transactions with the public. For example, Government contributions for Federal employee social insurance (such as Social Security) are offset against outlays. In contrast, the NIPAs treat the Federal Government like any other employer and show contributions for Federal employee social insurance as expenditures by the employing agencies and as governmental (rather than offsetting) receipts. The NIPAs also impute certain transactions that are not recorded explicitly in the budget. For example, unemployment benefits for Federal employees are financed by direct appropriations rather than social insurance contributions. The NIPAs impute the social insurance contributions to the expenditures of employing agencies—again, treating the Federal Government like any other employer.

[1] The other subsector of the NIPA government sector is a single set of transactions for all U.S. State and local units of government, treated as a consolidated entity.

[2] Over the period 1994–2007, NIPA current expenditures averaged 3.6 percent higher than budget outlays, while NIPA current receipts averaged 2.5 percent higher than budget receipts.

Timing differences for receipts occur because the NIPAs generally record business taxes when they accrue, while the budget generally records all receipts when they are received. Thus the NIPAs attribute corporations' final settlement payments back to the quarter(s) in which the profits that gave rise to the tax liability occurred. The delay between accrual of liability and Treasury receipt of payment can result in significant timing differences between NIPA and budget measures of receipts for any given accounting period.

Timing differences also occur for expenditures. When the first day of a month falls on a weekend or holiday, monthly benefit checks normally mailed on the first day of the month may be mailed out a day or two earlier; the budget then reflects two payments in one month and none the next. As a result, the budget totals occasionally reflect 13 monthly payments in one year and only 11 the next. NIPA expenditure figures always reflect 12 benefit payments per year, giving rise to a timing difference compared to the budget.

Coverage differences arise on the expenditure side because of the NIPA treatment of Government investment. The budget includes outlays for Federal investments as they are paid, while the NIPA Federal current account excludes current investments but includes a depreciation charge on past investments ("consumption of general government fixed capital") as part of "current expenditures." The inclusion of depreciation on fixed capital (structures, equipment and software) in current expenditures can be thought of as a proxy for the services that capital renders; i.e., for its contribution to Government output of public services. The depreciation charge is not a full reflection of capital services, however, since it does not include the net return to capital that in a private corporation would appear as interest income or profit. The NIPAs would need to include an imputed interest charge for government capital to assure a fully parallel treatment.

Certain items in the budget are excluded from the NIPA Federal current account because they are related to the acquisition or sale of assets, and not linked to current consumption or income. Examples include Federal investment grants to State and local governments, investment subsidies to business, lump sum payments to amortize the unfunded liability of the Uniformed Services Retiree Health Care Fund and the new Postal Service Retiree Health Benefits Fund, and forgiveness of debt owed by foreign governments. Likewise, estate and gift taxes, included in budget receipts, are excluded from NIPA current receipts as being capital transfers. They also exclude the proceeds from the sales of nonproduced assets such as land. Bonuses paid on Outer Continental Shelf oil leases and proceeds from broadcast spectrum auctions are shown as offsetting receipts in the budget and are deducted from budget outlays. In the NIPAs these transactions are excluded from the Federal current account as an exchange of assets with no current production involved. The NIPAs are not strictly consistent in this interpretation, however, since they do include in total revenues the taxation of capital gains. Also unlike the budget, the NIPAs exclude transactions with U.S. territories.

The treatment of Government pension plan income and outgo creates a coverage difference. Whereas the budget treats employee payments to these pension plans as governmental receipts, and employer contributions by agencies as offsets to outlays because they are intragovernmental, the NIPAs treat employer contributions as personal income and employee payments as a transfer of income within the household sector, in the same way as it treats contributions to pension plans in the private (household) sector. Likewise, the budget records a Government check to a retired Government employee as an outlay, but under NIPA concepts, no Government expenditure occurs at that time; the payment is treated (like private pension payments) as a transfer of income within the household sector.

Financial transactions such as loan disbursements, loan repayments, loan asset sales, and loan guarantees are excluded from the NIPAs on the grounds that such transactions simply involve an exchange of assets rather than current production, income, or consumption. In contrast, under the Federal Credit Reform Act of 1990, the budget records the estimated subsidy cost of the direct loan or loan guarantee as an outlay at the time when the loan is disbursed. The cash flows with the public are recorded in nonbudgetary accounts as a means of financing the budget rather than as budgetary transactions. This treatment recognizes that a Federal direct loan is an exchange of assets with equal value after allowing for the subsidy to the borrower implied by the terms of the loan. It also recognizes the subsidy element in loan guarantees. In the NIPAs, these subsidies are not recognized. The NIPAs, like the budget, include all interest transactions with the public, including interest received by and paid to the loan financing accounts; and both the NIPAs and the budget include administrative costs of credit program operations.

Deposit insurance outlays for resolving failed banks and thrift institutions are similarly excluded from the NIPAs on the grounds that there are no offsetting current income flows from these transactions. In 1991, this exclusion was the largest difference between the NIPAs and the budget and made NIPA net Government saving a significantly smaller negative number than the budget deficit that year. In subsequent years, as assets acquired from failed financial institutions were sold, these collections tended to make the budget deficit a smaller negative figure than NIPA net Federal Government saving.

Federal Sector Current Receipts

Table 14–1 shows the NIPA classification of Federal current receipts in five major categories and four of the subcategories used to measure taxes, which are similar to the budget categories but with some significant differences.

Current tax receipts is the largest category of current receipts, and its personal current taxes subcategory—

Table 14–1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1998–2009

(In billions of dollars)

Description	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Estimate	
											2008	2009
CURRENT RECEIPTS												
Current tax receipts	1,105.9	1,165.2	1,305.6	1,266.9	1,089.7	1,065.9	1,113.8	1,328.9	1,515.5	1,644.0	1,555.0	1,701.6
Personal current taxes	814.1	868.5	987.4	993.8	851.1	781.7	778.7	914.1	1,037.8	1,149.3	1,079.3	1,234.4
Taxes on production and imports	80.7	82.5	87.8	86.4	86.4	89.1	93.2	98.1	99.0	100.5	102.2	103.0
Taxes on corporate income	205.9	207.9	223.5	179.5	144.7	186.8	232.7	305.0	367.6	380.5	360.9	351.7
Taxes from the rest of the world	5.2	6.2	6.8	7.1	7.4	8.3	9.3	11.7	11.1	13.7	12.6	12.6
Contributions for government social insurance	604.4	642.2	687.8	713.8	729.6	749.9	795.1	843.4	887.6	937.2	981.0	1,032.8
Income receipts on assets	22.3	20.9	24.3	26.4	21.3	21.4	23.7	24.9	24.3	25.9	26.0	28.3
Current transfer receipts	21.0	21.8	24.9	26.5	25.5	24.7	27.7	11.0	35.0	35.7	37.7	42.4
Current surplus of government enterprises	–*	0.3	–1.3	–6.5	–1.1	2.5	0.2	–5.2	–3.7	–1.9	–0.4	–0.2
Total current receipts	1,753.5	1,850.3	2,041.2	2,027.1	1,865.0	1,864.4	1,960.6	2,203.0	2,458.7	2,641.0	2,599.2	2,805.0
CURRENT EXPENDITURES												
Consumption expenditures	452.9	469.5	496.0	519.7	575.5	648.0	706.6	757.9	800.3	841.6	912.1	1005.6
Defense	301.3	307.2	321.2	335.7	368.4	424.5	470.4	507.8	532.1	568.0	604.7	679.0
Nondefense	151.6	162.3	174.8	184.0	207.1	223.5	236.2	250.2	268.2	273.6	307.4	326.6
Current transfer payments	940.3	976.3	1,023.2	1,108.0	1,216.6	1,308.9	1,377.5	1,462.8	1,548.4	1,644.1	1,738.2	1,808.8
Government social benefits	716.4	733.0	762.7	823.6	900.9	956.3	1,005.1	1,071.6	1,154.5	1241.0	1,311.5	1,377.3
Grants-in-aid to State and local governments	209.9	227.7	244.1	268.2	296.7	329.3	347.6	359.5	360.8	370.8	390.9	398.2
Other transfers to the rest of the world	14.0	15.7	16.4	16.3	19.0	23.2	24.7	31.7	33.1	32.2	35.9	33.4
Interest payments	299.7	285.9	283.3	267.9	234.9	214.6	216.8	243.1	284.1	302.8	319.2	338.0
Subsidies	33.6	36.1	49.6	53.7	37.9	46.1	43.5	55.0	52.7	45.6	52.5	45.9
Wage disbursements less accruals	....	....	....	....	....	....	....	....	....	....	....	....
Total current expenditures	1,726.5	1,767.8	1,852.0	1,949.3	2,064.9	2,217.6	2,344.4	2,518.9	2,685.6	2,834.0	3,022.0	3,198.3
Net Federal Government saving	27.0	82.4	189.2	77.8	–199.9	–353.2	–383.8	–315.8	–226.9	–193.0	–422.7	–393.3
ADDENDUM: TOTAL RECEIPTS AND EXPENDITURES												
Current receipts	1,753.5	1,850.3	2,041.2	2,027.1	1,865.0	1,864.4	1,960.6	2,203.0	2,458.7	2,641.0	2,599.2	2,805.0
Capital transfer receipts	23.9	27.6	28.8	28.2	26.4	21.7	24.7	24.6	27.7	25.8	26.5	26.1
Total receipts	1,777.4	1,877.9	2,070.1	2,055.3	1,891.3	1,886.1	1,985.3	2,227.6	2,486.4	2,666.8	2,625.8	2,831.1
Current expenditures	1,726.5	1,767.9	1,852.0	1,949.3	2,064.9	2,217.6	2,344.4	2,518.9	2,685.6	2,834.0	3,022.0	3,198.3
Net investment:												
Gross government investment:												
Defense	45.4	46.5	48.5	49.9	54.5	59.0	65.1	72.3	77.2	81.9	94.0	95.5
Nondefense	29.7	31.9	32.2	30.3	32.6	33.3	33.6	35.9	40.5	38.4	39.2	39.2
Less: Consumption of fixed capital:												
Defense	59.8	59.7	60.2	60.3	60.4	61.4	63.4	67.0	71.2	74.9	78.1	81.3
Nondefense	22.9	24.5	26.5	27.7	28.2	28.7	29.3	30.8	32.6	33.4	36.8	39.9
Capital transfer payments	28.2	31.3	39.3	39.8	44.3	62.0	62.9	66.0	69.2	76.7	91.4	95.2
Net purchases of nonproduced assets	–5.3	–1.7	–0.3	–0.9	0.3	*	0.1	–0.7	–0.3	–13.6	–15.5	–2.5
Total expenditures	1,741.8	1,791.8	1,885.1	1,980.3	2,108.0	2,281.9	2,413.5	2,594.5	2,768.4	2,909.0	3,116.2	3,304.5
Net lending or net borrowing (–)	35.7	86.1	185.0	75.0	–216.7	–395.8	–428.1	–366.9	–281.9	–242.2	–490.4	–473.5

* $50 million or less.

composed primarily of the individual income tax—is the largest single subcategory. The NIPAs' taxes on corporate income subcategory differs in classification from the corresponding budget category primarily because the NIPAs include the deposit of earnings of the Federal Reserve System as corporate income taxes, while the budget treats these collections as miscellaneous receipts. (The timing difference between the NIPAs and the budget is especially large for corporate receipts.) The taxes on production and imports subcategory is composed of excise taxes and customs duties.

Contributions for Government social insurance is the second largest category of current receipts. It differs from the corresponding budget category primarily because: (1) the NIPAs include Federal employer contributions for social insurance as a governmental receipt, while the budget offsets these contributions against outlays as undistributed offsetting receipts; (2) the NIPAs include premiums for Parts B and D of Medicare as governmental receipts, while the budget nets them against outlays; (3) the NIPAs treat Government employee contributions to their pension plans as a transfer of personal income within the household sector (as if the pension system were private), while the budget includes them in governmental receipts; and (4) the NIPAs impute employer contributions for Federal employees' unemployment insurance and workers' compensation.

The income receipts on assets category consists mainly of interest payments received on Government direct loans (such as student loans) and rents and royalties on Outer Continental Shelf oil leases. The current transfer receipts category consists primarily of deposit insurance premiums, fees, fines and other receipts from both individuals and businesses, less insurance settlements from the National Flood Insurance Program—virtually all of which are netted against outlays in the budget. The current surplus (or deficit) of Government enterprises category is the profit or loss of "Government enterprises," such as the Postal Service, which are business-type operations of Government that usually appear in the budget as public enterprise revolving funds. Depreciation (consumption of enterprise fixed capital) is netted in calculating the current surplus of Government enterprises.

Federal Sector Current Expenditures

Table 14–1 shows the five major NIPA categories for current expenditures and five subcategories, which differ greatly from the corresponding budget categories.

Government consumption expenditures consist of goods and services purchased by the Federal Government, including compensation of employees and depreciation on fixed capital. Gross investment (shown among the addendum items in Table 14–1) is thus excluded from current expenditures and does not figure in computing net Government saving on a NIPA basis, whereas depreciation—charges on federally-owned fixed capital—("consumption of general government fixed capital") is included. The NIPAs treat State and local investment and capital consumption in the same way—regardless of the extent to which it is financed with Federal aid (capital transfer payments) or from State and local own-source receipts.

Although gross investment is not included in Government current expenditures, Government gross investment is included in total GDP along with current consumption expenditures (including depreciation), which makes the treatment of the government sector in the NIPAs similar to that of the private sector. Investment includes structures, equipment, and computer software.

The largest expenditure category consists mainly of current transfer payments for Government income security and health benefits, such as Social Security and Medicare. Payment of pension benefits to former Government employees is not included, as explained previously. Grants-in-aid to State and local governments help finance a range of programs, including income security, Medicaid, and education (but capital transfer payments for construction of highways, airports, wastewater treatment plants, and mass transit are excluded). "Current transfer payments to the rest of the world (net)" consists mainly of grants to foreign governments.

Interest payments consist of the interest paid by the Government on its debt (excluding debt held by trust funds, other than Federal employee pension plans; and other Government accounts). Where the budget nets interest received on loans against outlays, the NIPAs treat it as current receipts.

Subsidies consist of subsidy payments for resident businesses (excluding subsidies for investment). NIPA subsidies do not include the imputed credit subsidies estimated as budget outlays under credit reform. Rather, as explained previously loans and guarantees are excluded from the NIPAs except for associated interest and fees.

Wage disbursements less accruals is an adjustment that is necessary to the extent that the wages paid in a period differ from the amount earned in the period.

Differences in the Estimates

Since the introduction of the unified budget in January 1968, NIPA current receipts have been greater than budget receipts in most years. This is due principally to grossing differences and the fact that estate and gift taxes, which the NIPAs exclude as capital transfers, have been roughly matched by Medicare premiums, which the NIPAs include as a governmental receipt but the budget treats as an offsetting receipt. (In the budget, offsetting receipts are not included in the governmental receipts total but instead are netted against the outlay total.) Since 1986, NIPA current expenditures have usually been higher than budget outlays (from which the Medicare premiums and employer retirement contributions are netted out as offsetting receipts); despite the omission from NIPA expenditures of capital transfer grants and pension benefit payments to former Government employees.

Two components of budget outlays, however, are sometimes sufficiently large in combination to exceed the usual netting and grossing adjustments. These are financial transactions and net investment (the difference between gross investment and depreciation). Large outlays associated with resolving the failed savings and loan associations and banks in 1990 and 1991 caused those year's budget outlays to exceed NIPA current expenditures. With the change in budgetary treatment of direct loans in 1992 under credit reform, the cost of direct loans to the public recorded in the budget has been reduced bringing it closer to the NIPA treatment. Disbursement and repayment of loans made since that time are recorded outside the budget; only credit subsidies are recorded as budget outlays, unlike the

Table 14–2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPA's

Description	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Estimate	
											2008	2009
RECEIPTS												
Budget receipts	1,722.0	1,827.6	2,025.5	1,991.4	1,853.4	1,782.5	1,880.3	2,153.9	2,407.3	2,568.2	2,521.2	2,699.9
Contributions to government employee retirement plans	–4.3	–4.5	–4.8	–4.7	–4.6	–4.6	–4.6	–4.5	–4.4	–4.3	–4.7	–4.8
Capital transfers received	–23.9	–27.6	–28.8	–28.2	–26.3	–21.7	–24.7	–24.6	–27.7	–25.8	–26.5	–26.1
Other coverage differences	–5.8	–7.0	–8.0	–7.9	–8.9	–9.0	–10.4	–11.3	–11.7	–12.3	–13.2	–14.3
Netting and grossing	64.5	65.7	70.6	69.9	77.0	85.1	89.7	75.0	108.3	117.5	127.9	140.0
Timing differences	1.1	–3.9	–13.2	6.7	–25.6	32.1	30.3	14.4	–13.0	–2.4	–5.4	10.1
NIPA current receipts	1,753.5	1,850.3	2,041.2	2,027.1	1,865.0	1,864.4	1,960.6	2,203.0	2,458.7	2,641.0	2,599.2	2,805.0
EXPENDITURES												
Budget outlays	1,652.7	1,702.0	1,789.2	1,863.2	2,011.2	2,160.1	2,293.0	2,472.2	2,655.4	2,730.2	2,931.2	3,107.4
Government employee retirement plan transactions	31.3	32.1	31.7	31.5	33.7	33.1	33.5	39.4	42.1	41.1	51.2	55.7
Deposit insurance and other financial transactions	–7.1	–6.1	–9.0	–6.2	–6.7	2.1	0.4	7.1	–3.4	12.7	21.7	13.3
Capital transfer payments	–28.2	–31.3	–35.1	–39.8	–44.1	–45.4	–46.4	–47.7	–51.2	–76.7	–91.4	–95.2
Net purchases of nonproduced assets	5.3	1.7	0.3	0.9	–0.3	–*	–0.1	0.7	0.3	13.6	15.5	2.5
Net investment	7.6	5.7	6.0	7.9	1.4	–2.3	–6.1	–10.3	–13.9	–11.8	–18.4	–13.5
Other coverage differences	1.0	2.7	4.0	7.9	–0.6	–13.5	–21.3	–26.5	–38.4	–6.3	–12.5	–7.2
Netting and grossing differences	64.5	65.7	70.6	69.9	77.0	85.1	89.7	75.0	108.3	117.5	127.9	140.0
Timing differences	–0.7	–4.7	–5.6	14.3	–6.7	–1.6	1.6	8.9	–13.6	13.7	–3.3	–4.6
NIPA current expenditures	1,726.5	1,767.8	1,852.0	1,949.3	2,064.9	2,217.6	2,344.4	2,518.9	2,685.6	2,834.0	3,022.0	3,198.3
ADDENDUM												
Budget surplus or deficit (–)	69.3	125.6	236.2	128.2	–157.8	–377.6	–412.7	–318.3	–248.2	–162.0	–410.0	–407.4
NIPA net Federal Government saving	27.0	82.4	189.2	77.8	–199.9	–353.2	–383.8	–315.8	–226.9	–193.0	–422.7	–393.3

* $50 million or less.

NIPAs which do not include this element of government expenditure.

Every year during the period 1975–1992, the budget deficit exceeded in absolute value net Federal Government saving as measured in the NIPAs. The largest difference, $78.8 billion, occurred in 1991 as a result of resolving failed financial institutions as discussed above; the budget deficit was then –$269.2 billion, while the NIPA net Government saving was –$190.5 billion. In 1993–2002, NIPA net Federal Government saving exceeded the budget deficit in absolute value when the budget was in deficit and fell short of the budget surplus during the years the budget was in surplus. For 2003–2006, and again for 2009, the NIPA net Federal Government saving was, or is estimated to be, smaller than the budget deficit in absolute value, while for 2007 and 2008 the reverse is the case.

Table 14–1 displays Federal transactions using NIPA concepts with actual data for 1998–2007 and estimates for 2008 and 2009 consistent with the Administration's budget proposals. Table 14–2 summarizes the reasons for differences between the data. Annual NIPA data for 1948–2009 are published in Section 14 of a separate budget volume, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2009.*

Detailed estimates of NIPA current receipts and expenditures consistent with the budget and including quarterly estimates will be published in a forthcoming issue of the Department of Commerce publication, *Survey of Current Business* and on the Bureau of Economic Analysis website at *www.bea.doc.gov/bea/pubs.htm.*

BUDGET REFORM PROPOSALS

15. BUDGET REFORM PROPOSALS

The budget process should be transparent, accountable, and orderly. The current budget process needs reforms to achieve these goals. No one change can fix the budget process, and process alone cannot address important fiscal issues. Nevertheless, process changes can be a key factor in the effort to control spending. Starting with *A Blueprint for New Beginnings* and continuing with subsequent budgets, this Administration has consistently proposed changes to the budget process, as well as an extension with changes to key provisions of the Budget Enforcement Act (BEA) of 1990, as amended, that are designed to improve budget decisions and outcomes. This chapter updates the Administration's previous proposals and describes additional reforms proposed by the Administration.

Controlling Entitlements and Other Mandatory Spending

Mandatory Spending Control.—The Administration proposes to require that all legislation that changes mandatory spending, in total, does not increase the deficit. The five-year impact of any proposals affecting mandatory spending would continue to be scored. Legislation that increases the current year and the budget year deficit would trigger a sequester of direct spending programs. The proposal does not apply to changes in taxes and does not permit mandatory spending increases to be offset by tax increases. This proposal effectively applies a pay-as-you-go requirement to mandatory spending. Table 15–1 displays the President's mandatory spending proposals that would be subject to this requirement.

Long-term Unfunded Obligations.—The Administration proposes new measures to address the long-term unfunded obligations of Federal entitlement programs. As discussed in Chapter 13 of this volume, "Stewardship," spending by the Government's major entitlement programs, particularly Social Security and Medicare, is projected to rise in the next few decades to levels that cannot be sustained, either by those program's own dedicated financing or by general revenues. The Administration's proposed measures are designed to begin addressing these challenges.

In the Medicare Modernization Act (MMA) of 2003, Congress provided for a more comprehensive review of the Medicare program's finances and required the Medicare trustees to issue a warning when general revenue Medicare funding is projected to exceed 45 percent of Medicare's total expenditures. The President's Budget proposes to build on this reform by requiring an automatic reduction in the rate of Medicare growth if the MMA threshold is exceeded. The Medicare funding warning was triggered in the 2007 Medicare Trustees' Report because, for the second year in a row, general revenue expenditures are projected to exceed the threshold within the next six years. If action is not taken to keep this threshold from being exceeded, the reduction would begin as a four-tenths of a percent reduction to all payments to providers in the year the threshold is exceeded, and would grow by four-tenths of a percent every year the shortfall continued to occur. This provision is designed to encourage the President and the Congress to reach agreement on reforms to slow Medicare spending and bring it back into line with the threshold established by the MMA.

Social Security's Disability Insurance (DI) program provides disability insurance coverage and benefits to America's workers. DI outlays have grown as a percentage of all Federal budget outlays from about 2.0 percent in 1990 to an estimated 3.7 percent in 2008. The Budget projects DI outlays will continue to increase as a

Table 15–1. MANDATORY PROPOSALS SUBJECT TO PAYGO

(Cost/Savings (–) in millions of dollars)

Proposals	2008	2009	2010	2011	2012	2013	2008–13
Medicare	....	–12,437	–26,875	–39,798	–45,741	–53,384	–178,235
State Children's Health Insurance Program	....	2,260	3,005	4,010	4,680	5,315	19,270
Medicaid	140	–1,767	–2,924	–3,758	–4,305	–4,671	–17,285
Pension Benefit Guaranty Corporation premiums	....	–380	–2,217	–2,093	–2,127	–2,056	–8,873
Outlay effects of tax proposals [1]	....	–37	3,082	2,570	1,973	1,249	8,837
Social Services Block Grant	....	....	–1,445	–1,683	–1,700	–1,700	–6,528
Federal student aid programs	....	–2,763	–775	–801	–885	–859	–6,083
Arctic National Wildlife Refuge leasing	....	....	–3,502	–2	–503	–3	–4,010
Other proposals	–148	–1,140	–1,807	–920	–660	–1,809	–6,484
Total	–8	–16,263	–33,458	–42,475	–49,268	–57,918	–199,391
Total, 2008 and 2009	....	–16,271	....	....	....	....	....

[1] Affects both receipts and outlays. Only the outlay effect is shown here. For receipt effects, see Table S–7 in the Budget volume.

Note: A more detailed list of the Administration's mandatory proposals can be found in Table S–6 of the Budget volume.

percentage of the Federal budget, along with escalating annual cash deficits. The President's Budget proposes a Funding Warning to highlight the escalating and persistent fiscal problems facing DI. If SSA's actuaries project a negative DI cash flow that is more than 10 percent of program cost for four consecutive years in the upcoming 10 years, the Board of Trustees will issue the warning in the annual Trustees Report.

In addition to this Medicare-specific control mechanism and DI Funding Warning, the President's Budget proposes to establish a broader enforcement measure to analyze the long-term impact of legislation on the unfunded obligations of major entitlement programs and to make it more difficult to enact legislation that would expand the unfunded obligations of these programs over the long-run. These measures would highlight proposed legislative changes that appear to cost little in the short run but result in large increases in the spending burdens passed on to future generations.

First, the Administration proposes a point of order against legislation that worsens the long-term unfunded obligation of major entitlements. The specific programs covered would be those programs with long term actuarial projections, including Social Security, Medicare, Federal civilian and military retirement, veterans disability compensation, and Supplemental Security Income. Additional programs would be added once it becomes feasible to make long-term actuarial estimates for those programs.

Second, the Administration proposes new reporting requirements to highlight legislative actions worsening unfunded obligations. Under these requirements, the Administration would report on any enacted legislation in the past year that worsens the unfunded obligations of the specified programs

Budget Discipline for Agency Administrative Actions.—A significant amount of Federal policy is made via administrative action, which can increase Federal spending, often on the order of tens of billions of dollars in entitlement programs such as Medicare or Medicaid. Although known costs are incorporated into the budget baselines of various programs, agencies frequently initiate unplanned for and costly proposals. Often, these costs are not reflected in the baseline, or are not accompanied by other actions that would pay for the proposed change. This results in increased spending and deficits.

Controlling these costs is integral to the Administration's commitment to reducing the deficit and enforcing fiscal discipline. Toward that end, the Director of the Office of Management and Budget issued on May 23, 2005 a memorandum to all Executive Branch agencies implementing a budget-neutrality requirement on agency administrative actions affecting mandatory spending. Discretionary administrative actions in entitlement programs, including regulations, program memoranda, demonstrations, guidance to States or contractors, and other similar changes to entitlement programs are generally required to be fully offset. This effectively establishes a pay-as-you-go requirement for discretionary administrative actions involving mandatory spending programs. Exceptions to this requirement are only provided in extraordinary or compelling circumstances.

Controlling Discretionary Spending

Discretionary Caps.—The Administration proposes to set limits for 2008 through 2013 on net discretionary budget authority and outlays equal to the levels proposed in the 2009 Budget. Legislation that exceeds the discretionary caps would trigger a sequester of nonexempt discretionary programs. Table 15–2 displays the total levels of discretionary budget authority and outlays proposed for 2008 through 2013. This approach would put in place a budget framework for the next five years that ensures constrained, but reasonable growth in discretionary programs. For 2008 through 2010, separate defense (Function 050) and nondefense categories would be enforced. For 2011–2013, there would be a single cap for all discretionary spending.

These discretionary levels do not reflect the Administration's proposal to replace aviation taxes that are currently recorded as governmental receipts with FAA user fees that would be recorded as offsetting collections. If this proposal is enacted, the Administration would adjust discretionary spending levels downward for 2010–2013 by the amount of the proposal. In addition, a separate category for transportation outlays financed by dedicated revenues would be established for 2009. The Administration would support expanding the defense category to include all security programs and a corresponding change to create a non-security category to ensure resources are devoted to security programs and are not diverted for other purposes.

Program Integrity Cap Adjustments.—An improper payment occurs when Federal funds go to the wrong recipient, the recipient receives an incorrect amount of funds, or the recipient uses the funds in an improper manner. Approximately 85 percent of improper payments are overpayments. The Administration has made the elimination of improper payments a major focus. Federal agencies have aggressively reviewed Federal programs to evaluate the risk of improper payments and have developed measures to assess the extent of improper payments. Processes and internal control improvements have been initiated to enhance the accuracy and integrity of payments and to report the results of these efforts, pursuant to the Improper Payments Information Act of 2002 (Pub. L. No. 107–300).

The results of the agencies' assessments have been aggregated into a Government-wide report entitled *Improving the Accuracy and Integrity of Federal Payments*. (The report can be found at *www.whitehouse.gov/omb/financial/fia—improper.html.)* In 2007, the agencies reported a total of $55 billion in improper payments. This represents a 3.5 percent improper payment rate. Over 51 percent of those improper payments are in four programs: Medicare, Earned Income Tax Credit, Old-Age, Survivors, and Disability Insurance, and Unemployment Insurance. This program integrity cap adjustment initiative also captures IRS efforts to improve tax com-

Table 15–2. DISCRETIONARY CAPS AND ADJUSTMENTS

(Amounts in billions of dollars)

	2008[1]	2009	2010	2011	2012	2013
Proposed Discretionary Spending Categories:						
Defense Category (Function 050):						
Budget authority	500.2	536.8	545.4	NA	NA	NA
Outlays	577.1	576.0	545.4	NA	NA	NA
Nondefense Category:						
Budget authority	441.2	449.8	451.3	NA	NA	NA
Outlays	484.5	487.3	518.2	NA	NA	NA
Discretionary Category:						
Budget authority	NA	NA	NA	1,004.5	1,017.5	1,029.5
Outlays	NA	NA	NA	1,056.3	1,060.8	1,068.8
Proposed Cap Adjustments:						
SSA Continuing Disability Reviews:						
Budget authority	NA	0.2	0.5	0.5	NA	NA
Outlays	NA	0.2	0.5	0.5	NA	NA
IRS Tax Enforcement:						
Budget authority	NA	0.5	0.7	1.0	NA	NA
Outlays	NA	0.5	0.7	1.0	NA	NA
Health Care Fraud and Abuse Control:						
Budget authority	NA	0.2	0.2	0.2	NA	NA
Outlays	NA	0.2	0.2	0.2	NA	NA
Unemployment Insurance Improper Payments:						
Budget authority	NA	0.04	0.04	0.04	NA	NA
Outlays	NA	0.04	0.04	0.04	NA	NA
Subtotal, Nondefense Category with Adjustments:						
Budget authority	441.2	450.8	452.8	NA	NA	NA
Outlays	484.5	488.2	519.7	NA	NA	NA
Highway Category:						
Outlays	38.5	40.0	NA	NA	NA	NA
Mass Transit Category:[2]						
Outlays	8.7	9.4	NA	NA	NA	NA
Total, All Discretionary Categories:						
Budget authority	941.4	987.6	998.2	1,006.2	1,017.5	1,029.5
Outlays	1,108.8	1,113.6	1,065.1	1,058.0	1,060.8	1,068.8
Project BioShield Category:						
Budget authority	....	2.2	....	....	....	....
Memorandum: 2008 Enacted Emergencies						
Budget authority	*104.4*					

[1] The combined amounts of discretionary emergency budget authority provided in 2008 Appropriations Acts and Continuing Resolutions are displayed separately to display the proposed year-to-year growth in base discretionary budget authority.

[2] Includes outlays from discretionary budget authority.

pliance. While not technically improper payments, the challenges of tax compliance are similar to those of the improper payments programs.

In the context of the Administration's efforts to eliminate improper payments, the Administration is proposing adjustments for spending above a base level of funding within the discretionary levels for several program integrity initiatives, specifically for continuing disability reviews (CDRs), redeterminations of eligibility, and potentially two additional activities if they are as cost-effective as redeterminations in the Social Security Administration (SSA), Internal Revenue Service (IRS) tax enforcement, the Health Care Fraud and Abuse Control Program (HCFAC) in the Centers for Medicare and Medicaid Services and Unemployment Insurance improper payments in the Department of Labor. These cap adjustments provide an effective way to ensure that limited resources are applied to activities that reduce errors and generate program savings.

In the past decade, there have been a variety of successful statutory efforts to ensure dedicated resources for program integrity efforts. These efforts include cap adjustment funding for Social Security continuing disability reviews and integrity efforts associated with the Earned Income Tax Credit (EITC). These initiatives have led to increased savings for the Social Security and Supplemental Security Income programs and an increase in enforcement efforts in EITC. The Administration's proposed adjustments for program integrity activities will total $968 million in budget authority in 2009, $1,466 million in budget authority in 2010 and $1,777 million in budget authority in 2011.

The Administration continues to support a cap adjustment mechanism to promote spending on program integrity efforts. However, statutory cap adjustments do not work well when the President and the Congress do not have a cap or binding agreement on the top-line for discretionary budget authority. Therefore, the Administration is also asking that the Budget Committees consider one of several alternative approaches to protecting program integrity funding in the Congressional budget resolution.

One approach would be to adopt a scoring rule in the budget resolution for specific program integrity activities. Such a rule would demonstrate an agreement between the Budget Committees, would expressly delineate the programs and activities encompassed by the rule and would be applied only for activities which have accurate and independently validated savings estimates. For example, the rule could prescribe a score of "zero" for the costs of specific program integrity activities where the savings are documented. This approach would avoid the issue raised by scorekeeping rule 3, which prohibits scoring of changes in mandatory outlays unless the authorizing language is modified or appropriations language substantively changes the program statute, and that is a particular barrier in the context of IRS enforcement.

Another option would be for the Congressional budget resolution to include a reserve fund (or funds) for specific program integrity activities with documented savings. Such a fund would hold the Appropriations Committee harmless from the cost of the program integrity funds requested by providing savings only to offset the discretionary cost of such program integrity efforts. If the Appropriations Committees did not provide funding for these program integrity activities, the discretionary offset would disappear, leaving the top-line unchanged.

For the Social Security Administration, the $240 million cap adjustment would allow SSA to conduct at least an additional 140,000 Continuing Disability Reviews (CDRs) and at least an additional 635,000 SSI redeterminations of eligibility in 2009. In addition, up to $74 million of the cap adjustment funding may be available for initiatives to improve the disability process and initiatives to improve the asset verification process. The funding could only be used for these initiatives if they are as cost-effective as redeterminations of eligibility. If this criterion is not met, the funding would be used for additional Continuing Disability Reviews and SSI redeterminations. One promising activity is an asset verification initiative, currently in place in two states, which automatically verifies bank assets for SSI applicants through an electronic system. If this initiative is assessed and found to be as cost-effective as redeterminations of eligibility, some of the cap adjustment funding could be used for a national roll-out of the initiative. As a result of the cap adjustment funding, SSA would recoup over $2.6 billion in savings

Table 15–3. PROGRAM INTEGRITY BASE AND CAP ADJUSTMENTS

(Budget authority in millions of dollars)

	2006 Actual	2007 Actual	2008 Enacted	Proposed 2009	Proposed 2010	Proposed 2011
SSA Program Integrity:						
Enforcement Base [1]	224	141	264	264	264	264
Cap Adjustments:						
BA	NA	NA	NA	240	485	518
Outlays	NA	NA	NA	240	485	518
IRS Tax Enforcement:						
Enforcement Base	6,378	6,822	6,997	6,997	6,997	6,997
Cap Adjustments:						
BA	446	NA	NA	490	730	992
Outlays	415	NA	NA	462	688	963
Health Care Fraud and Abuse Control Program:						
Enforcement Base (Mandatory)	1,187	1,112	1,132	1,156	1,176	1,176
Cap Adjustments:						
BA	NA	NA	NA	198	211	227
Outlays	NA	NA	NA	198	211	227
Unemployment Insurance Improper Payments:						
Enforcement Base	10	10	10	10	10	10
Cap Adjustments:						
BA	NA	NA	NA	40	40	40
Outlays	NA	NA	NA	40	40	40
TOTAL:						
Enforcement Base	7,799	8,085	8,403	8,427	8,447	8,447
Cap Adjustments:						
BA	446	NA	NA	968	1,466	1,777
Outlays	415	NA	NA	940	1,424	1,748

[1] The numbers for 2006 and 2007 for SSA reflect spending on Continuing Disability Reviews (CDRs). For 2008 and 2009–2011, numbers reflect spending on CDRs and SSI redeterminations. Limited funding in the 2009–2011 cap adjustments may also be available for asset verification or disability improvement processes, provided the activities are as cost-effective as SSI redeterminations.

over a ten-year period, with additional savings after the ten-year period, as estimated by SSA's Office of the Actuary. The savings from one year of program integrity activities are realized over multiple years because some CDRs identify that the beneficiary has medically improved and is capable of working, which may mean that they are no longer eligible to receive Disability Insurance (DI) or Supplemental Security Income (SSI) benefits. This may also result in savings in Medicare and Medicaid, since eligibility for these programs is linked to DI and SSI. Overpayments of SSI benefits identified by a redetermination are not always recovered in the same year that the redetermination is conducted.

SSA is required by law to conduct CDRs for all beneficiaries who are receiving Disability Insurance benefits, as well as all children under 18 who are receiving Supplemental Security Income. SSI redeterminations are also required by law, but the frequency is not specified in statute. The baseline assumes a more likely scenario for program integrity funding, and the President's Budget shows the savings which will result from the program integrity cap adjustment proposal.

The return on investment (ROI) for CDRs is approximately 10 to 1 in lifetime program savings. The ROI for redeterminations is approximately 7 to 1. Redeterminations focus on an individual's eligibility for the means-tested SSI program and generally result in a revision to the individual's benefit level. However, the schedule of savings resulting from redeterminations will be different for the base and the cap adjustment. This is due to the fact that 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 is an underpayment error, and these recipient-initiated redeterminations are included in the base. In addition, corrections for underpayment errors are realized more quickly than corrections for overpayment errors.

For the IRS, the $490 million cap adjustment covers cost increases (+$132 million) for the $7.0 billion base IRS enforcement program plus new investments in expanding staff and improving the efficiency of the IRS' enforcement programs (+$358 million). As a result of these efforts, the IRS will collect an estimated $55 billion in 2009 in direct enforcement revenue. The IRS succeeded in increasing this figure by 75 percent between 2002 and 2007. The IRS estimates that work completed by the proposed new staff in 2009 will eventually yield another $769 million (including $3 million collected after 2018). Once these new staff are trained and become more experienced, the enforcement revenue impact of the work they complete each year will rise to $2,001 million. However, this ROI estimate is understated because much of the new investment is directed towards efforts to improve the performance of the exist-

Table 15–4. DIRECT SAVINGS ESTIMATED FROM 2009 PROGRAM INTEGRITY FUNDING

(Budget authority in millions of dollars)

	2009 Program Integrity Funding	Direct Savings Estimates										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
SSA Program Integrity [1]												
Enforcement Base	264	508	–474	–357	–193	–193	–177	–163	–155	–135	–119	–1,458
Cap Adjustment	240	–123	–795	–469	–209	–214	–195	–179	–172	–146	–125	–2,627
IRS Tax Enforcement [2]												
Enforcement Base	6,997	–55,200										–55,200
Cap Adjustment [3]	490	–154	–425	–86	–36	–26	–13	–8	–7	–3	–8	–766
Health Care Fraud and Abuse Control Program												
Cap Adjustments [4]	198	–350										–350
Unemployment Insurance Improper Payments [5]												
Enforcement Base	10	–40										–40
Cap Adjustments	40	–78	–77									–155

[1] This is based on SSA's Office of the Actuary estimates of savings. In the first year, the enforcement base shows a positive outlay. This is due to the fact that redeterminations of eligibility can uncover underpayment errors as well as overpayment errors. SSI recipients are more likely to initiate a redetermination if they believe there is an underpayment, and SSA completes these beneficiary-initiated redeterminations in the enforcement base. In addition, corrections for underpayments are realized more quickly than corrections for overpayment. The cap adjustment does not show an outlay in the first year because SSA would target their cap adjustment redetermination dollars to cases where an overpayment is suspected.

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

[3] The Internal Revenue Service (IRS) cap adjustment funds cost increases for the base program (+$132 million) and new initiatives (+$358 million). The IRS collects $55.2 billion per year (2009 estimate) in direct enforcement revenue, and its enforcement program helps maintain the more than $2 trillion in taxes voluntarily paid each year. The cost increases will help maintain the base revenue. The 2009 initiatives will yield an estimated $769 million in new enforcement revenue over ten years (including $3 million collected after 2018), fund research to help the IRS better target its enforcement resources, and help deter tax cheating. This deterrence impact is not directly measured. However, research suggests it is at least three times as large as the direct impact on revenue.

[4] These data are based on estimates from the HHS Office of the Actuary for return on investment from program integrity activities.

[5] The maximum UI benefit period is typically 26 weeks. As a result, preventing an ineligible individual from collecting UI benefits would save at most a half year of benefits. The two years of savings reflect the fact that reemployment and eligibility assessments conducted late in the year affect individuals whose benefits would have continued into the subsequent fiscal year.

ing staff (such as new computers and better research) that are not reflected in the IRS' ROI calculation. More importantly, the ROI is understated because it does not reflect the impact enhanced enforcement has on deterring non-compliance that helps to ensure the continued payment of more than $2 trillion in taxes voluntarily paid each year. The impact of increased IRS enforcement on improving voluntary compliance is not directly measured. However, research suggests it is at least three times as large as the direct impact on revenue.

The discretionary cap adjustment of $198 million for the Centers for Medicare and Medicaid Services' HCFAC program is designed to provide additional resources to identify and reduce improper payments in the Medicare prescription drug benefit and Medicare Advantage programs. The funding would be allocated among CMS, the Health and Human Services Office of Inspector General, the Federal Bureau of Investigation, and Department of Justice to safeguard these programs as well as Medicaid against fraud and abuse. This $198 million would generate approximately $350 million in savings in 2009, which would reflect recouping improper payments made to providers.

The 2009 Budget proposes a discretionary cap adjustment of $40 million 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 a $10 million Reemployment and Eligibility Assessment initiative begun in 2005 to finance in-person interviews at One-Stop Career Centers to assess UI beneficiaries' need for job-finding services and their continued eligibility for benefits. The current $10 million effort results in a savings in UI benefit payments of $40 million. The maximum UI benefit period is typically 26 weeks. As a result, preventing an ineligible individual from collecting UI benefits would save at most a half year of benefits. The two years of savings from the additional $40 million, totaling $78 million in 2009 and $77 million in 2010, reflect the fact that reemployment and eligibility assessments conducted late in the year affect individuals whose benefits would have continued into the subsequent fiscal year.

Table 15–5. TRANSPORTATION CATEGORY FOR HIGHWAYS AND MASS TRANSIT SPENDING

(Amounts in millions of dollars)

	2008	2009
Transportation Category:		
Highways: [1]		
Obligation Limitations	42,457	40,792
Outlays	38,504	40,040
Mass Transit:		
Obligation Limitations	7,768	8,361
Outlays [2]	8,650	9,401
Memorandum:		
Discretionary budget authority for Mass Transit included in the Nondefense Category:		
Budget authority	*1,723*	*1,775*

[1] The 2009 level includes $122 million for the National Highway Traffic Safety Administration. The proposal is to fund NHTSA completely from the Highway Trust Fund instead of a portion from the General Fund, as authorized in SAFETEA–LU.

[2] Includes outlays from discretionary budget authority.

Transportation Category.—The Administration's proposal for discretionary caps includes separate outlay categories for spending on Federal Highway and Mass Transit programs. The transportation levels will be financed by dedicated revenues through 2009. Table 15–5 shows the levels, including the revenue aligned budget authority (RABA) adjustment as authorized in the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA–LU) for 2008 and 2009. The RABA adjustment is calculated based on changes in estimated Highway Trust Fund receipts, and results in either an increase or decrease in the Highway Category funding level enacted in SAFETEA–LU. The amounts shown for 2008 reflect the levels provided by the Consolidated Appropriations Act (Pub. L. No. 110–161), which included the 2008 RABA adjustment authorized in SAFETEA–LU. For 2009, the RABA adjustment authorized in SAFETEA–LU is a reduction of $1,001 million. The Administration does not propose to make changes to this authorized reduction in 2009. The total level for 2009 includes the final installment of the $286.4 billion in highway, transit, and safety spending agreed upon in SAFETEA–LU.

Advance Appropriations.—An advance appropriation becomes available one or more years beyond the year for which its appropriations act is passed. Budget authority is recorded in the year the funds become available and not in the year of enactment. Too often, advance appropriations have been used to expand spending levels by shifting budget authority from the budget year into the subsequent year and then appropriating the budget authority freed up under the budget year discretionary cap to other programs. The effect of these advance appropriations is to limit the amount of discretionary budget authority available in subsequent years under the discretionary caps, thereby reducing future funding options available to both Congress and the President. From 1993 to 1998, an average of $2.3 billion in discretionary budget authority was advance appropriated each year. In 1999, advance appropriations totaled $8.9 billion and increased to $23.5 billion in 2000. Between 2001 and 2007, advance appropriations remained relatively constant. In 2008, advance appropriations were again increased by $2 billion to $25.6 billion. The additional advance appropriations were added for Education programs in Pub. L. No. 110–161, the FY 2008 Consolidated Appropriations Act.

Because this budget practice distorts the debate over Government spending and misleads the public about spending levels in specific accounts, the 2001 Congressional Budget Resolution and this Administration's budget proposals have capped advance appropriations at the amount advanced in the previous year. By capping advance appropriations, increases in these and other programs can be budgeted and reflected in the year of their enactment. For 2010, the Administration proposes a cap on advance appropriations of $25,552 million, which includes the already enacted advance appropriation for the Corporation for Public Broadcasting.

In addition, the Administration proposes to score the second-year effect of appropriations language that delays obligations of mandatory budget authority as advance appropriations that count against the discretionary caps. Appropriations acts often include provisions that delay obligations of mandatory BA from one year to the next. The first year is appropriately scored as a discretionary savings because it is included in an appropriations act and it reduces spending in that year. However, this is usually a temporary delay, and the funds become available for spending in the second year. Under this proposal, the second-year impact would be treated as an advance appropriation and scored against the discretionary caps. This would correct an inconsistency in the current practice where savings are scored in the first year, but the second-year impact is reclassified in the subsequent budget as mandatory and not scored against the discretionary caps.

To enforce the level of advance appropriations, the discretionary cap proposal provides that total funding for advance appropriations (including obligation delays) provided for 2010 in an appropriations act that is in excess of the Administration's limit on advance appropriations of $25,552 million in 2010 will count against the discretionary cap in the year enacted, not against the year the funds first become available.

For more information on individual accounts with advance appropriations, please see the chapter on this subject in the Budget Appendix.

Federal Pell Grants.—To ensure funding shortfalls do not accumulate in the Pell Grant program in future years, the 2006 Congressional Budget Resolution adopted the Administration's proposal to score appropriations at the amount needed to fully fund the award level set in appropriations acts, beginning with the 2006–2007 school year, if the amount appropriated is insufficient to fully fund all awards. The Administration proposes to continue this scoring rule. Under this rule, the amount scored would be increased to cover any cumulative funding shortfalls from previous years and reduced by any surpluses carried over from previous years, beginning with any shortfalls or surpluses from the 2006–2007 school year. If the amount appropriated in previous years exceeds the estimated full cost, the amount appropriated would be scored against that year, and the surplus would carry over as a credit against the following year's cost estimate. In the 2009 Budget, the Department of Education estimates that a cumulative $732 million shortfall will be carried into the 2009–2010 academic year. For scoring purposes, the funding needed to fully fund all awards for 2009–2010 is increased by the amount of this shortfall.

Project BioShield Category.—The Administration proposes a separate BEA category for budget authority for Project BioShield, which received an advance appropriation for 2009 of $2.2 billion in Pub. L. No. 108–90, the 2004 Department of Homeland Security Appropriations Act. Because the success of this program in providing for the development of vaccines and medications for biodefense depends on an assured funding availability, it is critical that this funding not be diverted to other purposes. The Administration's proposal to create a separate category will help ensure that funding for this program is not reduced and used as an offset for other discretionary spending.

Include Stricter Standard For Emergency Designation in the BEA

When the BEA was enacted in 1990, it provided a "safety valve" to ensure that the fiscal constraint envisioned by the BEA would not prevent the enactment of legislation to respond to unforeseen disasters and emergencies such as Operation Desert Storm, the terrorist attacks of September 11, 2001, or Hurricane Katrina. If the President and the Congress separately designated a spending or tax item as an emergency requirement, the BEA held these items harmless from its enforcement mechanisms. Initially, this safety valve was used judiciously, but in later years its application was expanded to circumvent the discretionary caps by declaring spending for ongoing programs as "emergencies."

The Administration proposes to include in the BEA a definition of "emergency requirement" that will ensure high standards are met before an event is deemed an "emergency" and therefore exempt. This definition should include the following elements: the requirement is a necessary expenditure that is sudden, urgent, unforeseen, and not permanent. These elements, all of which would be used for defining something as an emergency, are defined as follows:

- necessary expenditure—an essential or vital expenditure, not one that is merely useful or beneficial;
- sudden—quickly coming into being, not building up over time;
- urgent—pressing and compelling, requiring immediate action;
- unforeseen—not predictable or seen beforehand as a coming need (an emergency that is part of the average annual level of disaster assistance funding would not be "unforeseen"); and
- not permanent—the need is temporary in nature.

This definition codifies the criteria for an emergency that have been the standard for a number of years. It is designed to preclude funds from being declared an emergency for events that occur on an annual or recurring basis. For example, even though it is not possible to predict the specific occurrence of fires, tornados, hurricanes, and other domestic disasters, it is reasonable to assume that a combination of domestic disasters will occur in any given year that require funding equal to a multi-year average for disaster relief. Funding at an average, therefore, should not be considered an emergency under this definition. On the other hand, an average level of funding for domestic disasters will not accommodate the level necessary to address a large and relatively infrequent domestic disaster, such as Hurricane Katrina. Under this definition for emergencies, spending for extraordinary events could be classified as emergency funding. In the end, classification of certain spending as an emergency depends on common sense judgment, made on a case-by-case basis, about whether the totality of facts and circumstances indicate a true emergency.

In addition, the Administration proposes that the definition of an emergency requirement also encompass contingency operations that are national security related. Contingency operations that are national security related include both defense operations and foreign assistance. Military operations and foreign aid with costs that are incurred regularly should be a part of base funding and, as such, are not covered under this definition.

The Administration proposal also would require that the President and Congress concur in designating an emergency for each spending proposal covered by a designation. This would protect against the "bundling" of non-emergency items with true emergency spending. If the President determines that specific proposed emergency designations do not meet this definition, he would not concur in the emergency designation and no discretionary cap adjustment or mandatory spending control exemption would apply.

Baseline

The Administration supports the extension of section 257 of the BEA governing baseline calculations with the changes discussed below. The baseline estimates presented in the Current Services chapter of this volume reflect these proposed changes.

- Assume extension of all expiring tax provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 and certain provisions in the Jobs and Growth Tax Relief Reconciliation Act of 2003. This proposal is consistent with the BEA baseline rules for expiring mandatory spending and for excise taxes dedicated to a trust fund. Except for a few relatively small mandatory programs, the BEA assumes that mandatory spending and excise taxes dedicated to a trust fund will be reauthorized and extends them in the baseline. The 2001 Act and 2003 Act provisions were not intended to be temporary, and not extending them in the baseline raises inappropriate procedural road blocks to extending them at current rates.
- Add a provision to exclude discretionary funding for emergencies from the baseline. Instead, the baseline would include emergency funding only for the year in which it was enacted. The current requirement is for the discretionary baseline estimates for the budget year and the outyears to assume the current year appropriated level, adjusted for inflation. This is reasonable for ongoing programs, where the need is expected to continue into the future. For emergencies, since the need should be for a short duration, the baseline rules build unnecessary funding into the baseline estimates for the years after the need has been addressed and passed. In effect, the current rule biases the baseline in favor of higher discretionary spending.
- Correct the overcompensation of baseline budgetary resources for pay raise-related costs due to the way in which these costs are inflated. The current requirement, which provides a full year's funding for pay raises in the budget year and beyond, was written when Federal pay raises were scheduled to take effect on October 1, at the start of each fiscal year. However, this requirement is now inappropriate because the effective date for pay raises is now permanently set by law as the first pay period in January. By treating pay raises that begin on January 1 as if they take effect for the entire fiscal year, the baseline overstates the cost of providing a constant level of services.
- Eliminate the adjustments for expiring housing contracts and social insurance administrative expenses. Most multi-year housing contracts have expired or have been addressed since the BEA was first enacted in 1990, so the adjustment is no longer needed. The adjustment for social insurance administrative expenses is inconsistent with the baseline rules for other accounts that fund

the costs of administration. These programs should not be singled out for preferential treatment.

Earmark Reform

Earmarks are funds provided by the Congress for projects or programs where the congressional direction (in bill or report language) circumvents the merit-based or competitive allocation process, or specifies the location or recipient, or otherwise curtails the ability of the Executive Branch to properly manage funds. Historically, these provisions have not been publicly disclosed during the legislative process, and often they are special interest projects. A number of organizations track earmarks. The Congressional Research Service (CRS) and Citizens Against Government Waste (CAGW) have been tracking earmarks for over a decade. While they do not use the same definition, their data show similar trends. Earmarks have expanded dramatically in recent years, with the numbers and costs of earmarks more than tripling since the early 1990s. According to CAGW, the Congress added nearly 550 earmarks at a cost of $3 billion to the budget in 1991. The number of earmarks peaked in 2005. CAGW has estimated that earmarks grew to almost 14 thousand at a cost of $27 billion. CRS data show a similar trend, with earmarks reaching more than 16 thousand in 2005 at a cost of $52 billion. OMB has also been tracking earmarks during recent years, and in 2007, publicly released its own estimates for 2005, the most recent fiscal year for which full data was available. Using the definition above, OMB estimates that the number of earmarks grew to over 13 thousand at a cost of nearly $19 billion in the appropriations bills for 2005. In 2007, OMB also developed the capability to track earmarks during each stage of the legislative process and compare those amounts to the 2005 amounts. These estimates are available at *www.omb.earmarks.gov*.

One major concern about earmarks is the lack of transparency. Most earmarks do not appear in statutory language. Instead, they are included in committee reports that accompany legislation. According to CRS, more than 90 percent of earmarks are in report language. This means that the vast majority of earmarks do not appear in the statutory language that the Congress actually votes on or that the President signs into law. Also, earmarks frequently surface in the last stage of the legislative process, in conference committees between the House and the Senate.

In response to the President's call for earmark reform, changes in the House Rules and Senate legislation during the 110th Congress required more disclosure for earmarks. The President is pleased that the Congress has begun to make progress in bringing greater transparency to the earmarking process. Taxpayers should feel confident that their tax dollars are being spent wisely. Unfortunately, the large number of earmarks and the continuing lack of transparency in the earmarking process make it difficult to assure the public that the Government is spending the people's money on the Nation's highest priorities. As a consequence, earmark reform remains a priority in this Budget.

Line-Item Veto

A perennial criticism of the Federal Government is that spending and tax legislation contain too many provisions that are not fully justified, are a low priority, or are earmarked to avoid the discipline of competitive or merit-based reviews. These special interest items would likely not become law if considered as a stand-alone bill, and their persistence diverts resources from higher priority programs and erodes the confidence of citizens in Government.

From the Nation's founding, presidents have exercised the authority to not spend appropriated sums. However, Congress sought to curtail this authority in 1974 through the Impoundment Control Act, which restricted the President's authority to decline to spend appropriated sums. Although the Line Item Veto Act of 1996 attempted to give the President the authority to cancel spending authority and special interest tax breaks, the U.S. Supreme Court found that law unconstitutional.

In 2006, the President asked that Congress correct this state of affairs by providing him and future presidents with a line item veto that would withstand constitutional challenge, and the President transmitted legislation to the Congress in March 2006 that accomplishes this purpose. Under the President's proposal, a President could propose legislation to rescind wasteful spending, and the Congress would be obligated to vote quickly on that package of rescissions, without amendment. All savings from the line-item veto would be used for deficit reduction; they could not be applied to augment spending elsewhere.

The President's proposal received strong support. In June 2006, the House of Representatives voted on a bipartisan basis to enact a version of the Legislative Line Item Veto. In the Senate, members voted to report an amended version of the President's proposal out of the Senate Budget Committee for consideration on the floor.

Forty-three Governors have a line item veto to reduce spending, and the President needs similar authority to help control unjustified and wasteful spending in the Federal budget. The Administration urges continued support for this common-sense provision and will seek its enactment in the 110th Congress.

Credit Reform and Insurance Proposals

Credit Reform

The Federal Credit Reform Act (FCRA), as amended by the Balanced Budget Act of 1997, provides the framework for budgetary accounting for Federal credit programs. In the coming year, the Administration plans to discuss with Congressional Committees, the Congressional Budget Office, and the Government and Accountability Office the following issues:

- Scope of the Federal Credit Reform Act;

- Treatment of administrative costs in credit program cost estimates;
- Improvements in methods for making credit subsidy cost estimates; and
- Treatment of financial risk insurance programs in the budget.

Scope of the Federal Credit Reform Act.—The Administration proposes to explore options to build consensus on FCRA applicability, and reduce the potential for budgetary gimmicks based on FCRA scoring. For example, budgetary constraints for capital projects can lead agencies and their advocates to develop proposals which minimize or eliminate up-front costs by relying on third-party financing. Where the Federal Government is ultimately responsible for the activity or asset, financing through third parties is an inefficient means of accomplishing the policy goal, and can ultimately lead to higher taxpayer costs than financing the activity directly through the Treasury.

In some cases, there is disagreement with FCRA applicability. For example, since the implementation of FCRA in 1992, it has been the position of OMB that the FCRA definition of loan guarantee, which includes "any guarantee, insurance, or other pledge with respect to payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender" applies to guarantees of non-Federal securities, including those providing secondary guarantees on federally-guaranteed loans. Opposing arguments have focused on the administrative burden of FCRA implementation or stated that FCRA should not apply because risk is primarily borne by the primary guarantors.

Administrative costs.—When credit reform was being formulated some argued to include administrative costs in the subsidy cost estimate, as the Government clearly has a long term commitment to maintaining the credit portfolio while the loans are outstanding. However, when FCRA was enacted, Congress maintained administrative expenses on a cash basis, consistent with other administrative costs. In some cases, increasing loan volumes without sufficient administrative resources may impede the agency's ability to effectively manage its credit portfolios if it cannot support loan accounting systems or other basic tools necessary for effective oversight and management. Ineffective oversight and management can lead to increased risk to the taxpayer and potentially higher cost.

Methods to improve credit subsidy cost estimates.—Potential improvements the Administration would like to consider include discounting to a single point in time, and identifying methods to better reflect uncertainty and risks not explicitly captured under the current system. Currently, under FCRA and associated guidance, the cost of credit programs is based on cash flows discounted to the point of disbursement. Some programs disburse over several years. To accurately calculate the subsidy costs, agencies have to keep more detailed records of cashflows associated with each disbursement, or employ simplified methods. The former can be an administrative burden, while the latter may make it difficult to understand changes in cost due to borrower performance, versus the simplified methods. Also, current methods may not fully capture certain risks and uncertainty, such as the total cost of variable rate loans or guarantees, or the potential of unexpectedly high losses coinciding with periods of economic distress and budgetary pressure. The private sector employs methods to reflect these risks in their own portfolios which may be useful and will be considered, although some methods may not be applicable to Federal programs or may be too complex to effectively implement.

Treatment of Insurance Programs

Claims associated with a year's insurance policies can pay out over years or even decades but the budget currently reflects only the payments made within the budget window. However, there are other options for the budgetary treatment of Federal insurance programs, including presentations on a net-present value basis similar to the treatment of credit programs.

For example, the Pension Benefit Guarantee Corporation suffers claims when under-funded plans terminate under financial distress. Under a claim, the PBGC incurs an obligation to pay participants benefits for their entire retirements, which can last decades. Under cash budgeting only the benefit payments within the budget window (usually five years) appear. However, the PBGC itself uses accrual accounting in its financial statements and in making its management decisions. Under accrual budgeting, the budget would record as a cost the amount that PBGC financial statements currently view as the cost of a claim: the present value of guaranteed benefit payments minus the value of plan assets.

The treatment of insurance programs in the budget is not a new issue. When the Congress and the George H.W. Bush Administration enacted the Federal Credit Reform Act of 1991, they ordered OMB, CBO, and GAO to study the issue, finding that analytical capabilities were not ready to implement accrual budgeting for insurance programs. However, since then, insurance program agencies have made great strides in developing models to project cash flows of insurance programs.

Indeed, with present accounting methods, measuring the cost of insurance programs on an accrual basis is generally not more difficult than measuring their cost on a cash basis. The main challenge facing insurance agencies is how to project a single set of cash flows for the budget given the multiple, and sometimes catastrophic scenarios facing their programs; that challenge exists under both cash accounting and net present value accounting. Insurance programs use probabilistic modeling to collapse such multiple scenarios into one for cash or present value budgeting. In some cases cash budgeting involves more steps than accrual budgeting; for example when an agency can accurately predict the value of a claim but faces uncertainty about the timing of its payouts or recoveries.

Before implementing a change in the treatment of insurance programs, the Administration and the Congress would need to clarify the definition of an "insurance program." For example, because the programs that are grouped under the label of "social insurance" do not involve binding obligations and in some cases do not resemble typical insurance programs (e.g., the main Social Security program), the Administration would not include social insurance programs in any such proposal.

Other Budget Reform Proposals

Joint Budget Resolution.—A joint budget resolution would set the overall levels for discretionary spending, mandatory spending, receipts, and debt in a simple document that would have the force of law. Under the current process, the Congress annually adopts a "concurrent resolution," which does not require the President's signature and does not have the force of law.

A joint budget resolution could be enforced by sequesters requiring automatic across-the-board cuts to offset any excess spending, similar to the BEA. It would bring the President into the process at an early stage, encourage the President and the Congress to reach agreement on overall fiscal policy before individual tax and spending bills are considered, and give the budget resolution the force of law.

Biennial Budgeting and Appropriations.—Only three times in the last 26 years have all appropriation bills been enacted by the beginning of the fiscal year. Because Congress must enact these bills each year, it cannot devote the time necessary to provide oversight and fully address problems in Federal programs. The preoccupation with these annual appropriations bills frequently precludes review and action on authorization legislation and on the growing portion of the budget that is permanently funded under entitlement laws. According to the Congressional Budget Office, in recent years the Congress appropriated between $160 billion and $170 billion for programs and activities whose authorizations of appropriations have expired.

In contrast, a biennial budget would allow lawmakers to devote more time every other year to ensuring that taxpayers' money is spent wisely and efficiently. In addition, Government agencies would receive more stable funding, which would facilitate longer range planning and improved fiscal management. Under the President's proposal for a biennial budget, funding decisions would be made in odd-numbered years, with even numbered years devoted to authorizing legislation.

Government Shutdown Prevention.—In the 23 out of the past 26 years in which Congress has not finished appropriation bills by the October 1st deadline, it has funded the Government through "continuing resolutions" (CRs), which provide temporary funding authority for Government activities, usually at current levels, until the final appropriations bills are signed into law.

If Congress does not pass a CR or the President does not sign it, the Federal Government must shut down. Important Government functions should not be held hostage simply because of an impasse over temporary funding bills. There should be a back-up plan to avoid the threat of a Government shutdown, although the expectation is that appropriations bills still would pass on time as the law requires. Under the Administration's proposal, if an appropriations bill is not signed by October 1 of the new fiscal year, funding would be automatically provided at the lower of the President's Budget or the prior year's level.

Results and Sunset Commissions.—The Federal Government's ability to serve the American people is often hampered by poorly designed programs or uncoordinated, overlapping programs trying to achieve the same objective. Today, almost 25 percent of assessed programs on which the Government spends almost $150 billion a year have been determined to be either ineffective or unable to demonstrate results. And the problem of overlapping programs exists in many areas where the Government is trying to serve.

From the 1930s through 1984, presidents were permitted to submit plans for reorganizing Federal agencies to Congress that would become effective unless the plan was disapproved by either House of Congress. After the Supreme Court decision in *INS v. Chadha* (462 U.S. 919), the authority granted to presidents for submitting reorganization plans under the Reorganization Act (5 U.S.C. 903) was limited by the requirement of congressional approval through a joint resolution and by the scope of what could be proposed. This authority was no longer available to the President after 1984.

Today, proposals to restructure or consolidate programs or agencies so they can perform better require a change in law and often face long odds of being enacted due to a cumbersome process that requires approval from multiple congressional committees.

To address this problem, in June 2005 the Administration transmitted the Government Reorganization and Program Performance Improvement Act, which would establish bipartisan Results Commissions and a Sunset Commission. Results Commissions would consider and revise Administration proposals to restructure or consolidate programs or agencies to improve their performance. The Sunset Commission would consider Presidential proposals to retain, restructure, or terminate agencies and programs according to a schedule set by the Congress. Agencies and programs would automatically terminate according to the schedule unless reauthorized by the Congress. The legislation was introduced in the House and Senate, but was not enacted.

FEDERAL BORROWING AND DEBT

16. FEDERAL BORROWING AND DEBT

Debt is the largest legally binding obligation of the Federal Government. At the end of 2007, the Government owed $5,035 billion of principal to the people who had loaned it the money to pay for past deficits. During that year, the Government paid the public around $252 billion of interest on this debt.

Table 16–1. TRENDS IN FEDERAL DEBT HELD BY THE PUBLIC

(Dollar amounts in billions)

Fiscal Year	Debt held by the public:		Debt held by the public as a percent of:		Interest on the debt held by the public as a percent of: [3]	
	Current Dollars	FY 2000 dollars [1]	GDP	Credit market debt [2]	Total outlays	GDP
1946	241.9	1,821.3	108.6	N/A	7.4	1.8
1950	219.0	1,339.9	80.2	53.3	11.4	1.8
1955	226.6	1,217.3	57.4	43.2	7.6	1.3
1960	236.8	1,128.0	45.7	33.7	8.5	1.5
1965	260.8	1,161.4	38.0	26.9	8.1	1.4
1970	283.2	1,047.8	28.0	20.8	7.9	1.5
1975	394.7	1,074.6	25.3	18.4	7.5	1.6
1980	711.9	1,340.7	26.1	18.5	10.6	2.3
1985	1,507.3	2,164.6	36.4	22.3	16.2	3.7
1990	2,411.6	2,968.1	42.0	22.6	16.1	3.5
1991	2,689.0	3,190.0	45.3	24.1	16.2	3.6
1992	2,999.7	3,471.2	48.1	25.7	15.5	3.4
1993	3,248.4	3,675.4	49.4	26.6	14.9	3.2
1994	3,433.1	3,802.6	49.3	26.9	14.4	3.0
1995	3,604.4	3,910.1	49.2	26.7	15.8	3.3
1996	3,734.1	3,974.6	48.5	26.4	15.8	3.2
1997	3,772.3	3,946.3	46.1	25.4	15.7	3.1
1998	3,721.1	3,846.1	43.1	23.5	15.1	2.9
1999	3,632.4	3,705.9	39.8	21.5	13.8	2.6
2000	3,409.8	3,409.8	35.1	19.2	13.0	2.4
2001	3,319.6	3,243.1	33.0	17.6	11.6	2.1
2002	3,540.4	3,393.9	34.1	17.6	8.9	1.7
2003	3,913.4	3,677.1	36.2	17.9	7.5	1.5
2004	4,295.5	3,933.7	37.4	18.1	7.3	1.5
2005	4,592.2	4,074.8	37.5	17.7	7.7	1.6
2006	4,829.0	4,147.6	37.1	17.1	8.9	1.8
2007	5,035.1	4,211.7	36.8	N/A	9.2	1.8
2008 estimate	5,428.6	4,454.7	37.9	N/A	8.9	1.8
2009 estimate	5,856.2	4,710.6	39.0	N/A	9.0	1.9
2010 estimate	6,031.1	4,756.3	38.2	N/A	9.7	1.9
2011 estimate	6,139.7	4,747.1	37.0	N/A	10.0	1.9
2012 estimate	6,109.5	4,631.2	35.1	N/A	10.1	1.9
2013 estimate	6,097.4	4,531.6	33.4	N/A	9.7	1.8

N/A = Not available.

[1] Debt in current dollars deflated by the GDP chain-type price index with Fiscal Year 2000 equal to 100.

[2] Total credit market debt owed by domestic nonfinancial sectors, modified in some years to be consistent with budget concepts for the measurement of Federal debt. Financial sectors are omitted to avoid double counting, since financial intermediaries borrow in the credit market primarily in order to finance lending in the credit market. Source: Federal Reserve Board flow of funds accounts. Projections are not available.

[3] Interest on debt held by the public is estimated as the interest on Treasury debt securities less the "interest received by trust funds" (subfunction 901 less subfunctions 902 and 903). The estimate of interest on debt held by the public does not include the comparatively small amount of interest paid on agency debt or the offsets for interest on Treasury debt received by other Government accounts (revolving funds and special funds).

The deficit was $162 billion in 2007, down from $248 billion in 2006. This $162 billion deficit and other financing transactions totaling $44 billion required the Government to increase its borrowing from the public by $206 billion last year. Debt held by the public fell from 37.1 percent of Gross Domestic Product (GDP) at the end of 2006 to 36.8 percent of GDP at the end of 2007. The deficit is estimated to increase in 2008 and then to begin to fall again, reaching surplus in 2012. Debt as a percentage of GDP is estimated to increase in 2008 and 2009 and then resume decline, reaching 33.4 percent of GDP in 2013.

Trends in Debt Since World War II

Table 16–1 depicts trends in Federal debt held by the public from World War II to the present and estimates from the present through 2013. (It is supplemented for earlier years by Tables 7.1–7.3 in *Historical Tables*, which is published as a separate volume of the Budget.) Federal debt peaked at 108.6 percent of GDP in 1946, just after the end of the war. From then until the 1970s, because of an expanding economy as well as inflation, Federal debt as a percentage of GDP decreased almost every year. With households borrowing large amounts to buy homes and consumer durables, and with businesses borrowing large amounts to buy plant and equipment, Federal debt also decreased almost every year as a percentage of the total credit market debt outstanding. The cumulative effect was impressive. From 1950 to 1975, debt held by the public declined from 80.2 percent of GDP to 25.3 percent, and from 53.3 percent of credit market debt to 18.4 percent. Despite rising interest rates, interest outlays became a smaller share of the budget and were roughly stable as a percentage of GDP.

During the 1970s, large budget deficits emerged as spending surged and as the economy was disrupted by oil shocks and rising inflation. The nominal amount of Federal debt more than doubled, and Federal debt relative to GDP and credit market debt stopped declining after the middle of the decade. The growth of Federal debt accelerated at the beginning of the 1980s, due in large part to a deep recession, and the ratio of Federal debt to GDP grew sharply. The ratio of Federal debt to credit market debt also rose, though to a lesser extent. Interest outlays on debt held by the public, calculated as a percentage of either total Federal outlays or GDP, increased as well.

The growth of Federal debt held by the public was decelerating by the mid-1990s, however, and the debt declined markedly relative to both GDP and total credit market debt. The decline accelerated as surpluses emerged from 1997 to 2001. Debt fell steadily from 49.4 percent of GDP in 1993 to 33.0 percent in 2001; and it fell more unevenly from 26.9 percent of total credit market debt in 1994 to 17.6 percent in 2001 and 2002. Interest on this debt, relative to total outlays and GDP, declined as well. Interest as a share of outlays peaked at 16.5 percent in 1989 and then fell to 8.9 percent by 2002; interest as a percentage of GDP fell in a similar proportion.

The downward trend in debt relative to GDP ceased in 2002 as economic conditions changed and the Nation responded to the September 11 terrorist attacks. The decline in the stock market, the recession, and the initially slow recovery all reduced tax receipts; tax relief had the same effect; and spending increased due to the Global War on Terror. Consequently, deficits ensued and debt began to rise, both in nominal terms and as a percentage of GDP. However, a growing economy led to a revival of receipts and deficits have fallen in each of the past three years. Deficits are expected to increase in 2008, after which the budget is expected to return to falling deficits and to reach surplus in 2012. In nominal dollars, debt is estimated to continue to rise through 2011 and then begin to fall in 2012 when the Government achieves surplus. Debt as a percent of GDP fell in 2006 and 2007 and, after temporary increases in 2008 and 2009, is expected to fall by over three percentage points from the current level by the end of 2013.

Debt Held by the Public, Gross Federal Debt, and Liabilities Other Than Debt

The Federal Government issues debt securities for two principal purposes. First, it borrows from the public to finance the Federal deficit.[1] Second, it issues debt to Government accounts, primarily trust funds, that accumulate surpluses. (As used in this Budget, debt held by Government accounts refers to debt held by Federal Government accounts; investments by State and local governments in Federal securities are included as debt held by the public.) By law, trust fund surpluses must generally be invested in Federal securities. The gross Federal debt is defined to consist of both the debt held by the public and the debt held by Government accounts. Nearly all the Federal debt has been issued by the Treasury and is sometimes called "public debt," but a small portion has been issued by other Government agencies and is called "agency debt."[2]

Borrowing from the public, whether by the Treasury or by some other Federal agency, is normally a good approximation of the Federal demand on credit markets. Regardless of whether the proceeds are used for tangible or intangible investment or to finance current consumption, the Federal demand on credit markets has to be financed out of the saving of households and businesses, the State and local sector, or the rest of the world. Federal borrowing thereby competes with the borrowing of other credit market sectors for financial resources in the credit market. Borrowing from the public thus affects the size and composition of assets held by the private sector, and the amount of saving imported from abroad. It also increases the amount of future resources required to pay interest to the public on Federal debt. Borrowing from the public is therefore an important concern of Federal fiscal policy.[3]

---

[1] Treasury debt held by the public is measured as the sales price plus the amortized discount (or less the amortized premium). At the time of sale, the book value equals the sales price. Subsequently, it equals the sales price plus the amount of the discount that has been amortized up to that time. In equivalent terms, the book value of the debt equals the principal amount due at maturity (par or face value) less the unamortized discount. (For a security sold at a premium, the definition is symmetrical.) For inflation-indexed notes and bonds, the book value includes a periodic adjustment for inflation. Agency debt is generally recorded at par.

[2] The term "agency debt" is defined more narrowly in the budget than customarily in the securities market, where it includes not only the debt of the Federal agencies listed in Table 16–3, but also the debt of the Government-sponsored enterprises listed in Table 7–9 at the end of Chapter 7 of this volume and certain Government-guaranteed securities.

[3] The Federal subsector of the national income and product accounts provides a measure of "net government saving" (based on current expenditures and current receipts) that can be used to analyze the effect of Federal fiscal policy on national saving within the framework of an integrated set of measures of aggregate U.S. economic activity. The Federal subsector and its differences from the budget are discussed in Chapter 14 of this volume, "National Income and Product Accounts."

Issuing debt securities to Government accounts performs an essential function in accounting for the operation of these funds. The balances of debt represent the cumulative surpluses of these funds due to the excess of their tax receipts, interest receipts, and other collections compared to their spending. The interest on the debt that is credited to these funds accounts for the fact that some earmarked taxes and user fees will be spent at a later time than when the funds receive the monies. The debt securities are a liability of the general fund to the fund that holds the securities and are a mechanism for crediting interest to that fund on its recorded balances. These accounting balances generally provide the fund with authority to draw upon the U.S. Treasury in later years to make future payments on its behalf to the public. Public policy may run surpluses and accumulate debt in trust funds and other Government accounts in anticipation of future spending.

However, issuing debt to Government accounts does not have any of the credit market effects of borrowing from the public. It is an internal transaction of the Government, made between two accounts that are both within the Government itself. It is not a current transaction of the Government with the public; it is not financed by private saving and does not compete with the private sector for available funds in the credit market; it does not provide the account with resources other than a legal claim on the U.S. Treasury, which itself obtains real resources by taxation and borrowing; and its current interest does not have to be financed by other resources.

Furthermore, the debt held by Government accounts does not represent the estimated amount of the account's obligations or responsibilities to make future payments to the public. For example, if the account records the transactions of a social insurance program, the debt that it holds does not represent the actuarial present value of estimated future benefits (or future benefits less taxes) for the current participants in the program; nor does it represent the actuarial present value of estimated future benefits (or future benefits less taxes) for the current participants plus the estimated future participants over some stated time period. The future transactions of Federal social insurance and employee retirement programs, which own 91 percent of the debt held by Government accounts, are important in their own right and need to be analyzed separately. This can be done through information published in the actuarial and financial reports for these programs.[4]

This Budget uses a variety of information sources to analyze the condition of Social Security and Medicare, the Government's two largest social insurance programs. Chapter 13 of the present volume, "Stewardship," projects Social Security and Medicare outlays to the year 2080 relative to GDP. It also discusses in some detail the actuarial projections prepared for the Social Security and Medicare trustees reports to evaluate the long-run actuarial deficiency or shortfall in these programs. A chapter in the main volume of the Budget, "The Nation's Fiscal Outlook," uses the same data in less detail to explain the long-run fiscal problems of Social Security and Medicare revealed by these projections. The actuarial shortfalls are very different in concept and much larger in size than the amount of Treasury debt that these programs hold.

For all these reasons, debt held by the public is a better gauge of the effect of the budget on the credit markets than gross Federal debt.

Debt securities do not encompass all the liabilities of the Federal Government. For example, accounts payable occur in the normal course of buying goods and services; Social Security benefits are due and payable as of the end of the month but, according to statute, are paid during the next month; loan guarantee liabilities are incurred when the Government guarantees the payment of interest and principal on private loans; and liabilities for future pension and retiree health payments are incurred as part of the current compensation for the services performed by Federal civilian and military employees in producing Government outputs. Like debt securities sold in the credit market, these liabilities have their own distinctive effects on the economy. Federal liabilities are analyzed within the broader conceptual framework of Federal resources and responsibilities in the "Stewardship" Chapter of this volume. The different types of liabilities are reported annually in the financial statements of Federal agencies and in the *Financial Report of the United States Government*, prepared by the Treasury Department.

Government Surpluses or Deficits and the Change in Debt

Table 16–2 summarizes Federal borrowing and debt from 2007 through 2013. In 2007 the Government borrowed $206 billion, increasing the debt held by the public from $4,829 billion at the end of 2006 to $5,035 billion at the end of 2007. The debt held by Government accounts increased $293 billion, and gross Federal debt increased by $499 billion to $8,951 billion.

Debt Held by the Public.—The Federal Government primarily finances deficits by borrowing from the public, and it primarily uses surpluses to repay debt held by the public. Table 16–2 shows the relationship between the Federal deficit or surplus and the change in debt held by the public. The borrowing or debt repayment depends on the Federal Government's expenditure programs and tax laws, on the economic conditions that influence tax receipts and outlays, and on debt management policy. The sensitivity of the budget to economic conditions is analyzed in Chapter 12 of this volume, "Economic Assumptions."

The total or unified budget surplus consists of two parts: the on-budget surplus or deficit; and the surplus of the off-budget Federal entities, which have been excluded from the budget by law. Under present law,

[4] Extensive actuarial analyses of the Social Security and Medicare programs are published in the annual reports of the boards of trustees of these funds. Annual actuarial reports are also prepared for major Federal employee retirement funds. The actuarial estimates for these and other programs are summarized in the *Financial Report of the United States Government*, prepared annually by the Treasury Department.

Table 16–2. FEDERAL GOVERNMENT FINANCING AND DEBT

(In billions of dollars)

	Actual 2007	Estimate					
		2008	2009	2010	2011	2012	2013
Financing:							
Unified budget deficit (–)/surplus (+)	–162.0	–410.0	–407.4	–160.0	–94.8	48.1	29.3
Financing other than borrowing from the public:							
Changes in: [1]							
Treasury operating cash balance (–)	–23.1	30.2	....	....	....	....	....
Checks outstanding, etc. [2]	–1.6	....	....	....	....	....	....
Seigniorage on coins	0.8	0.9	0.8	0.9	0.9	0.9	0.9
Credit net financing disbursements (–):							
Direct loan financing accounts	–8.2	–10.1	–15.7	–14.9	–16.3	–16.8	–17.0
Guaranteed loan financing accounts	–8.6	–2.7	–5.2	–1.1	1.2	–2.1	–1.7
Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust (–)	–3.3	–1.8	–*	0.2	0.5	0.2	0.5
Total, financing other than borrowing from the public	–44.2	16.6	–20.1	–15.0	–13.7	–17.9	–17.3
Total, requirement to borrow from the public	–206.2	–393.5	–427.5	–174.9	–108.6	30.2	12.1
Change in debt held by the public	206.2	393.5	427.5	174.9	108.6	–30.2	–12.1
Changes in Debt Subject to Statutory Limitation:							
Change in debt held by the public	206.2	393.5	427.5	174.9	108.6	–30.2	–12.1
Change in debt held by Government accounts	293.2	310.2	331.4	366.0	393.5	441.8	420.3
Less: change in debt not subject to limit and other adjustments	1.7	*	1.9	1.3	1.7	1.8	1.9
Total, change in debt subject to statutory limitation	501.1	703.7	760.8	542.3	503.7	413.4	410.2
Debt Subject to Statutory Limitation, End of Year:							
Debt issued by Treasury	8,925.6	9,629.3	10,388.0	10,928.7	11,430.6	11,842.7	12,251.4
Less: Treasury debt not subject to limitation (–) [3]	–14.5	–14.5	–12.4	–10.7	–8.9	–7.6	–6.2
Agency debt subject to limitation	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Adjustment for discount and premium [4]	10.2	10.2	10.2	10.2	10.2	10.2	10.2
Total, debt subject to statutory limitation [5]	8,921.3	9,625.1	10,385.9	10,928.2	11,431.9	11,845.4	12,255.5
Debt Outstanding, End of Year:							
Gross Federal debt: [6]							
Debt issued by Treasury	8,925.6	9,629.3	10,388.0	10,928.7	11,430.6	11,842.7	12,251.4
Debt issued by other agencies	25.2	25.2	25.4	25.7	25.8	25.4	24.9
Total, gross Federal debt	8,950.7	9,654.4	10,413.4	10,954.4	11,456.5	11,868.1	12,276.4
Held by:							
Debt held by Government accounts	3,915.6	4,225.8	4,557.3	4,923.3	5,316.8	5,758.6	6,179.0
Debt held by the public [7]	5,035.1	5,428.6	5,856.2	6,031.1	6,139.7	6,109.5	6,097.4

* $50 million or less.

[1] A decrease in the Treasury operating cash balance (which is an asset) is a means of financing a deficit and therefore has a positive sign. An increase in checks outstanding (which is a liability) is also a means of financing a deficit and therefore also has a positive sign.

[2] Besides checks outstanding, includes accrued interest payable on Treasury debt, uninvested deposit fund balances, allocations of special drawing rights, and other liability accounts; and, as an offset, cash and monetary assets (other than the Treasury operating cash balance), other asset accounts, and profit on sale of gold.

[3] Consists primarily of Federal Financing Bank debt.

[4] Consists mainly of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

[5] The statutory debt limit is $9,815 billion, enacted on September 29, 2007.

[6] Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities are almost all measured at face value. Treasury securities in the Government account series are otherwise measured at face value less unrealized discount (if any).

[7] At the end of 2007, the Federal Reserve Banks held $779.6 billion of Federal securities and the rest of the public held $4,255.5 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

the off-budget Federal entities are the Social Security trust funds (Old-Age and Survivors Insurance and Disability Insurance) and the Postal Service fund.[5] The off-budget totals are virtually the same as Social Security, which had a large surplus in 2007 and is estimated to have large surpluses throughout the projection period. The on-budget and off-budget surpluses or deficits are added together to determine the Government's financing needs.

The Government's need to borrow, or its ability to repay debt held by the public, has always depended on several other factors besides the unified budget sur-

[5] For further explanation of the off-budget Federal entities, see Chapter 23 of this volume, "Off-Budget Federal Entities and Non-Budgetary Activities."

plus or deficit, such as the change in the Treasury operating cash balance. As shown in Table 16–2, these other factors, which in this table are called "financing other than borrowing from the public," can either increase or decrease the Government's need to borrow. (An increase in its need to borrow is represented by a negative sign, like the deficit.) Some of the individual factors themselves may be either positive or negative, and some of them vary considerably in size from year to year. In 2007 the deficit was $162 billion and these other factors increased the need to borrow by $44 billion. As a result, the Government borrowed $206 billion from the public.

Over the long-run, it is a good approximation to say that "the deficit is financed by borrowing from the public" or "the surplus is used to repay debt held by the public." Over the last 20 years, the cumulative deficit was $2,957 billion and the increase in debt held by the public was $3,145 billion. Thus, the other factors added a total of $188 billion of borrowing, an average of $9 billion per year.

In individual years it is also often a good approximation to say that the deficit and borrowing (or the surplus and debt repayment) are about the same. The variation, however, can be wide, ranging over the last 20 years from additional borrowing (or lower repayment) of $63 billion in 2002 to reduced borrowing of $30 billion in 2004. The other factors are estimated to reduce borrowing by $17 billion in 2008 and increase borrowing in 2009 through 2013 by amounts ranging from $14 to $20 billion. Three specific factors presented in Table 16–2 have recently been especially important.

Change in Treasury operating cash balance.—The cash balance increased $16 billion in 2006 and $23 billion in 2007, as a result of transactions that occurred late in the fiscal year. The operating cash balance is estimated to decrease by $30 billion by the end of 2008 and then to remain essentially the same. Changes in the operating cash balance, while occasionally large, are inherently limited. Decreases in cash—a means of financing the Government—are limited by the amount of past accumulations, which themselves required financing when they were built up. Increases are limited because it is more efficient to repay debt.

Net financing disbursements of the direct loan and guaranteed loan financing accounts.—Under the Federal Credit Reform Act of 1990, budget outlays for direct loans and loan guarantees consist of the estimated subsidy cost of the loans or guarantees at the time when the direct loans or guaranteed loans are disbursed. The cash flows to and from the public resulting from these loans and guarantees—the disbursement and repayment of loans, the default payments on loan guarantees, the collections of interest and fees, and so forth—are not costs to the Government except for those costs already included in budget outlays. Therefore, they are non-budgetary in nature and are recorded as transactions of the non-budgetary financing account for each credit program. [6]

The financing accounts also include several types of intragovernmental transactions. In particular, they receive payment from the credit program accounts for the costs of new direct loans and loan guarantees; they also receive payment for any upward reestimate of the costs of direct loans and loan guarantees outstanding. These collections are offset against the gross disbursements of the financing accounts in determining the accounts' total net cash flows. The gross disbursements include outflows to the public—such as of loan funds or default payments—as well as the payment of any downward reestimate of costs to budgetary receipt accounts. The total net cash flows of the financing accounts, consisting of transactions with both the public and the budgetary accounts, are called "net financing disbursements." They are defined in the same way as the "outlays" of a budgetary account and therefore affect the requirement for borrowing from the public in the same way as the deficit.

The intragovernmental transactions of the financing accounts do not affect Federal borrowing from the public. Although the deficit changes because of the budget's outlay to, or receipt from, a financing account, the net financing disbursement changes in an equal amount with the opposite sign, so the effects cancel out. On the other hand, financing account disbursements to the public increase the requirement for borrowing from the public in the same way as an increase in budget outlays that are disbursed to the public in cash. Likewise, financing account receipts from the public can be used to finance the payment of the Government's obligations, and therefore they reduce the requirement for Federal borrowing from the public in the same way as an increase in budget receipts.

A major part of this financing is normally due to the direct student loan program. Since direct loans require cash disbursements equal to the full amount of the loans when the loans are made, Federal borrowing requirements are initially increased. Later, when the loans are repaid, Federal borrowing requirements will decrease.

In some years, large net upward or downward reestimates in the cost of outstanding direct and guaranteed loans may cause large swings in the net financing disbursements. In 2007, the upward reestimates in some accounts largely cancelled out the downward reestimates in other accounts, for a net downward reestimate of $3 billion. In 2008, upward and downward reestimates are again expected to largely cancel out, with a net upward reestimate of $3 billion. After 2008, the pattern is expected to be more normal.

The financing accounts are estimated to increase the need for borrowing by $13 billion in 2008 and from

[6] The Federal Credit Reform Act of 1990 (sec. 505(b)) requires that the financing accounts be non-budgetary. As explained in Chapter 23 of this volume, "Off-Budget Federal Entities and Non-Budgetary Activities," they are non-budgetary in concept because they do not measure cost. For additional discussion of credit reform, see Chapter 26 of this volume, "The Budget System and Concepts," and the other references cited in Chapter 23 of this volume.

$15 billion to $21 billion in each of the following five years.

Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust.—This trust fund was established by the Railroad Retirement and Survivors' Improvement Act of 2001. In 2003, most of the assets in the Railroad Retirement Board trust funds were transferred to the new trust fund, which invests its assets primarily in private stocks and bonds. The Act ordered special treatment of the purchase or sale of non-Federal assets by this trust fund, treating such purchases as a means of financing rather than an outlay. Therefore, the increased need to borrow from the public to finance the purchase of non-Federal assets is part of the "financing other than borrowing from the public" rather than included as an increase in the deficit. The increased borrowing associated with the transfer expanded publicly held debt by $20 billion in 2003. Net purchases in subsequent years have been much smaller. Net purchases increased borrowing by $3 billion in 2007. The net purchases are expected to increase borrowing by $2 billion in 2008 and then to have a lesser impact on borrowing in future years.[7]

Debt held by Government accounts.—The amount of Federal debt issued to Government accounts depends largely on the surpluses of the trust funds, both on-budget and off-budget, which owned 93 percent of the total Federal debt held by Government accounts at the end of 2007. In 2007, the total trust fund surplus was $249 billion, and trust funds invested $245 billion in Federal securities. Investment may differ somewhat from the surplus due to changes in the amount of cash assets not currently invested. The remainder of debt issued to Government accounts is owned by a number of special funds and revolving funds. The debt held in major accounts and the annual investments are shown in Table 16–4.

Agency Debt

Some Federal agencies, shown in Table 16–3, sell or have sold debt securities to the public and, at times, to other Government accounts. At one time, several other agencies issued debt securities, but this activity has declined significantly over time. Currently, new debt is issued only by the Tennessee Valley Authority (TVA) and the Federal Housing Administration (FHA); the remaining agencies are repaying existing borrowing. During 2007, agencies repaid $0.6 billion of debt held by the public, resulting in total agency debt of $25.2 billion as of the end of the year. Agency debt is less than one percent of Federal debt held by the public. Agencies are estimated to repay small amounts of debt in 2008. As a result of anticipated new borrowing by TVA, agency debt is expected to increase by $0.2 billion in 2009.

The predominant agency borrower is the Tennessee Valley Authority, which had borrowed $25 billion from the public as of the end of 2007, or 98 percent of the total debt of all agencies. TVA sells debt primarily to finance capital expenditures.

Table 16–3. AGENCY DEBT

(In millions of dollars)

	Borrowing or repayment (–) of debt			Debt end of 2009 estimate
	2007 actual	2008 estimate	2009 estimate	
Borrowing from the public:				
Housing and Urban Development:				
Federal Housing Administration	–27	*	....	85
Small Business Administration:				
Participation certificates: Section 505 development company	–7	....	....	....
Architect of the Capitol	–4	–4	–4	144
National Archives	–10	–11	–11	193
Tennessee Valley Authority:				
Bonds and notes	–391	148	387	23,035
Lease/leaseback obligations	–37	–43	–41	988
Prepayment obligations	–105	–106	–105	928
Total, borrowing from the public	–581	–16	226	25,373
Borrowing from other funds:				
Tennessee Valley Authority	–1	....	....	6
Total, borrowing from other funds	–1	....	....	6
Total, agency borrowing	–582	–16	226	25,379

* $500,000 or less.

[7] The budget treatment of this fund is further discussed in Chapter 26 of this volume, "The Budget System and Concepts."

The TVA has traditionally financed its capital construction by selling bonds and notes to the public. Since 2000, it has also employed two types of alternative financing methods, lease/leaseback obligations and prepayment obligations. Under the lease/leaseback obligations method, TVA signed contracts to lease some facilities and equipment to private investors and simultaneously lease them back. It received a lump sum for leasing out its assets, and then leased them back at fixed annual payments for a set number of years. TVA retains substantially all of the economic benefits and risks related to ownership of the assets.[8] Under the prepayment obligations method, TVA's power distributors may prepay a portion of the price of the power they plan to purchase in the future. In return, they obtain a discount on a specific quantity of the future power they buy from TVA. The quantity varies, depending on TVA's estimated cost of borrowing.

The Office of Management and Budget determined that each of these alternative financing methods is a means of financing the acquisition of assets owned and used by the Government, or of refinancing debt previously incurred to finance such assets. They are equivalent in concept to other forms of borrowing from the public, although at different terms and conditions. The budget therefore records the upfront cash proceeds from these methods as borrowing from the public, not offsetting collections. The obligations under these methods are reported as liabilities on TVA's balance sheet under generally accepted accounting principles. Table 16–3 presents these alternative financing methods separately from TVA bonds and notes to distinguish between the types of borrowing. At the end of 2007, obligations were $1.1 billion for lease/leasebacks and $1.1 billion for prepayments. Obligations for these two types of alternative financing are estimated to continue to decline as TVA fulfills the terms of the contracts.

The Federal Housing Administration has for many years issued both checks and debentures as means of paying claims to the public that arise from defaults on FHA-insured mortgages. Issuing debentures to pay the Government's bills is equivalent to selling securities to the public and then paying the bills by disbursing the cash borrowed, so the transaction is recorded as being simultaneously an outlay and borrowing. The debentures are therefore classified as agency debt.

A number of years ago, the Federal Government guaranteed the debt used to finance the construction of buildings for the National Archives and the Architect of the Capitol, and subsequently exercised full control over the design, construction, and operation of the buildings. These arrangements are equivalent to direct Federal construction financed by Federal borrowing. The construction expenditures and interest were therefore classified as Federal outlays, and the borrowing was classified as Federal agency borrowing from the public.

[8] This arrangement is at least as governmental as a "lease-purchase without substantial private risk." For further detail on the current budgetary treatment of lease-purchase without substantial private risk, see OMB Circular No. A–11, Appendix B.

The amount of agency securities sold to the public has been reduced over time by borrowing from the Federal Financing Bank (FFB). The FFB is an entity within the Treasury Department, one of whose purposes is to substitute Treasury borrowing for agency borrowing from the public. It has the authority to purchase agency debt and finance these purchases by borrowing from the Treasury. Agency borrowing from the FFB is not included in gross Federal debt. It would be double counting to add together (a) the agency borrowing from the FFB and (b) the Treasury borrowing from the public that was needed to provide the FFB with the funds to lend to the agencies.

Debt Held by Government Accounts

Trust funds, and some special funds and public enterprise revolving funds, accumulate cash in excess of current needs in order to meet future obligations. These cash surpluses are generally invested in Treasury debt.

Investment by trust funds and other Government accounts has risen greatly for many years. It was $293 billion in 2007, and is estimated to be $310 billion in 2008 and $331 billion in 2009, as shown in Table 16–4. The holdings of Federal securities by Government accounts are estimated to grow to $4,557 billion by the end of 2009, or 44 percent of the gross Federal debt. The percentage is estimated to rise in the following years, as the trust funds and several major revolving funds and special funds continue to accumulate surpluses while borrowing from the public begins to fall.

The large investment by Government accounts is concentrated among a few trust funds. The two Social Security trust funds—Old-Age and Survivors Insurance and Disability Insurance—have a large combined surplus and invest $584 billion during 2007–09, which is 62 percent of the total estimated investment by Government accounts. The funds for Federal employee retirement also invest a large share of the total. The military retirement trust fund and the special fund for uniformed services Medicare-eligible retiree health care account for 16 percent of total investment by Government accounts during 2007–2009. The principal trust fund for Federal civilian employees is the Civil Service Retirement and Disability Fund (CSRDF). In 2007, funds were transferred from the CSRDF, the Postal Service, and other sources to create a new special fund for Postal Service retiree health benefits. Together the CSRDF and the new Postal Service retiree health benefit fund account for another 12 percent. The two Medicare trust funds—Hospital Insurance and Supplementary Medical Insurance—account for 5 percent. Altogether, the investment by Social Security, Medicare, and these four Federal employee retirement funds is almost as much as the total investment by Government accounts during this period. At the end of 2009, they are estimated to own 92 percent of the total debt held by Government accounts. Many of the other Government accounts also increase their holdings of Federal securities during this period.

Technical note on measurement.—The Treasury securities held by Government accounts consist almost entirely of the Government account series. Most were issued at par value (face value), and the securities issued at a discount or premium were traditionally recorded at par in the OMB and Treasury reports on Federal debt. However, there are two kinds of exceptions.

Table 16–4. DEBT HELD BY GOVERNMENT ACCOUNTS [1]

(In millions of dollars)

Description	Investment or Disinvestment (–)			Holdings end of 2009 estimate
	2007 actual	2008 estimate	2009 estimate	
Investment in Treasury debt:				
Energy:				
Nuclear waste disposal fund [1]	1,326	884	914	21,845
Uranium enrichment decontamination fund	395	57	225	4,905
Health and Human Services:				
Federal hospital insurance trust fund	17,191	–5,336	10,908	324,949
Federal supplementary medical insurance trust fund	6,187	9,502	7,550	56,300
Vaccine injury compensation fund	246	–135	–146	2,344
Homeland Security: Aquatic resources trust fund	198	–197	50	1,700
Housing and Urban Development:				
Federal Housing Administration mutual mortgage fund	375	–306	–181	21,918
Guarantees of mortgage-backed securities	374	375	417	9,551
Interior:				
Bureau of Land Management permanent operating funds	–151	–141	–132	1,917
Environmental improvement and restoration fund	39	66	40	1,195
Abandoned mine reclamation fund	98	103	114	2,582
Labor:				
Unemployment trust fund	8,711	9,077	8,000	92,000
Pension Benefit Guaranty Corporation [1]	–462	–135	82	14,473
State: Foreign service retirement and disability trust fund	502	518	536	15,432
Transportation:				
Highway trust fund	1,207	–5,135	–5,998	1,072
Airport and airway trust fund	38	19	–1,523	6,427
Aviation insurance revolving fund	190	180	28	1,096
Treasury:				
Exchange stabilization fund	725	862	884	18,182
Comptroller of the Currency Assessment fund	107	147	181	1,140
Veterans Affairs:				
National service life insurance trust fund	–437	–472	–534	8,746
Veterans special life insurance fund	25	11	5	2,001
Corps of Engineers: Harbor maintenance trust fund	552	390	....	4,105
Other Defense-Civil:				
Medicare-eligible retiree health care fund	19,451	41,659	25,543	159,393
Military retirement trust fund	8,422	25,152	32,637	248,021
Education benefits fund	165	231	168	1,804
Environmental Protection Agency:				
Hazardous substance trust fund	103	87	100	2,931
Leaking underground storage tank trust fund	271	189	250	3,376
International Assistance Programs:				
Overseas Private Investment Corporation	203	125	130	4,731
Office of Personnel Management:				
Civil service retirement and disability trust fund	11,729	31,824	33,398	766,887
Employees life insurance fund	1,683	1,084	1,290	35,339
Employees health benefits fund	1,067	490	402	16,784
Postal Service retiree health benefits fund	25,491	6,787	6,946	39,224
Social Security Administration:				
Federal old-age and survivors insurance trust fund [2]	175,133	187,680	201,688	2,357,630
Federal disability insurance trust fund [2]	11,652	4,097	3,388	221,315
District of Columbia: Federal pension fund	37	–5	12	3,653
Farm Credit System Insurance Corporation:				
Farm Credit System Insurance fund	275	292	345	3,000
Federal Communications Commission:				
Universal service fund	269	22	....	5,053

Table 16–4. DEBT HELD BY GOVERNMENT ACCOUNTS [1]—Continued

(In millions of dollars)

Description	Investment or Disinvestment (–) 2007 actual	2008 estimate	2009 estimate	Holdings end of 2009 estimate
Federal Deposit Insurance Corporation:				
Federal deposit insurance fund	1,300	1,729	2,904	52,148
FSLIC resolution fund	153	292	167	3,641
National Credit Union Administration:				
Share insurance fund	388	293	384	7,814
Postal Service fund [2]	–3,254	–979	....	....
Railroad Retirement Board trust funds	106	107	–100	2,003
United States Enrichment Corporation fund	75	40	60	1,602
Other Federal funds	953	–1,058	295	5,361
Other trust funds	327	–269	17	3,824
Unrealized discount [1]	–196	....	....	–2,159
Total, investment in Treasury debt [1]	**293,238**	**310,202**	**331,444**	**4,557,255**
Investment in agency debt:				
Railroad Retirement Board:				
National Railroad Retirement Investment Trust	–1	....	....	6
Total, investment in agency debt [1]	**–1**	....	....	**6**
Total, investment in Federal debt [1]	**293,237**	**310,202**	**331,444**	**4,557,261**
MEMORANDUM				
Investment by Federal funds (on-budget)	51,506	52,119	39,177	383,284
Investment by Federal funds (off-budget)	–3,254	–979	....	....
Investment by trust funds (on-budget)	58,397	67,285	87,191	1,597,191
Investment by trust funds (off-budget)	186,784	191,778	205,076	2,578,945
Unrealized discount [1]	–196	....	....	–2,159

* $500 thousand or less.

[1] Debt held by Government accounts is measured at face value except for the Treasury zero-coupon bonds held by the Nuclear Waste Disposal fund and the Pension Benefit Guaranty Corporation (PBGC), which are recorded at market or redemption price; and the unrealized discount on Government account series, which is not distributed by account. Changes are not estimated in the unrealized discount. If recorded at face value, at the end of 2007 the debt figures would be $19.4 billion higher for the Nuclear Waste Disposal fund and $21.3 billion higher for PBGC than recorded in this table.

[2] Off-budget Federal entity.

First, Treasury issues zero-coupon bonds to a very few Government accounts. Because the purchase price is a small fraction of par value and the amounts are large, the holdings are recorded in Table 16–4 at par value less unamortized discount. The only two Government accounts that held zero-coupon bonds during the period of this table are the Nuclear Waste Disposal fund in the Department of Energy and the Pension Benefit Guaranty Corporation (PBGC). The total unamortized discount on zero-coupon bonds was $40.6 billion at the end of 2007.

Second, Treasury subtracts the unrealized discount on other Government account series securities in calculating “net federal securities held as investments of government accounts.” Unlike the discount recorded for zero-coupon bonds and debt held by the public, the unrealized discount is the discount at the time of issue and is not amortized over the term of the security. In Table 16–4 it is shown as a separate item at the end of the table and not distributed by account. The amount was $2.2 billion at the end of 2007.

Limitations on Federal Debt

Definition of debt subject to limit.—Statutory limitations have usually been placed on Federal debt. Until World War I, the Congress ordinarily authorized a specific amount of debt for each separate issue. Beginning with the Second Liberty Bond Act of 1917, however, the nature of the limitation was modified in several steps until it developed into a ceiling on the total amount of most Federal debt outstanding. This last type of limitation has been in effect since 1941. The limit currently applies to most debt issued by the Treasury since September 1917, whether held by the public or by Government accounts; and other debt issued by Federal agencies that, according to explicit statute, is guaranteed as to principal and interest by the United States Government.

The third part of Table 16–2 compares total Treasury debt with the amount of Federal debt that is subject to the limit. Nearly all Treasury debt is subject to the debt limit. Most of the Treasury debt not subject to the general statutory limit was issued by the Federal Financing Bank (FFB). The FFB, which is within the

Treasury Department, is authorized to have outstanding up to $15 billion of publicly issued debt. It issued $14 billion of securities to the Civil Service Retirement and Disability Fund on November 15, 2004, in exchange for an equal amount of regular Treasury securities. The FFB securities have the same interest rates and maturities as the regular Treasury securities for which they were exchanged. The securities mature on dates from June 30, 2009, through June 30, 2019. The other Treasury debt not subject to the general limit consists almost entirely of silver certificates and other currencies no longer being issued. It was $502 million at the end of 2007 and gradually declines over time.

The sole agency debt currently subject to the general limit, $69 million at the end of 2007, is certain debentures issued by the Federal Housing Administration.[9] Some of the other agency debt, however, is subject to its own statutory limit. For example, the Tennessee Valley Authority is limited to $30 billion of bonds and notes outstanding.

The comparison between Treasury debt and debt subject to limit also includes an adjustment for measurement differences in the treatment of discounts and premiums. As explained earlier in this Chapter, debt securities may be sold at a discount or premium, and the measurement of debt may take this into account rather than recording the face value of the securities. However, the measurement differs between gross Federal debt (and its components) and the statutory definition of debt subject to limit. An adjustment is needed to derive debt subject to limit (as defined by law) from Treasury debt. The amount is relatively small: $10.2 billion at the end of 2007 compared to the total unamortized discount (less premium) of $82.1 billion on all Treasury securities.

Changes in the debt limit.—The statutory debt limit has been changed many times. Since 1960, Congress has passed 73 separate acts to raise the limit, extend the duration of a temporary increase, or revise the definition.[10]

During the 1990s, the debt limit was increased three times by amounts large enough to last for two years or more. All three of these increases were enacted as part of a deficit reduction package or a plan to balance the budget and were intended to last a relatively long time: the Omnibus Budget Reconciliation Act of 1990; the Omnibus Budget Reconciliation Act of 1993; and the Balanced Budget Act of 1997. The 1997 increase lasted until 2002.

Since 2002, the debt has reached the limit five times. In each instance, the limit has been increased by an amount sufficient to last less than two years. The debt limit was increased to $6,400 billion on June 28, 2002, to $7,384 billion on May 27, 2003, to $8,184 billion on November 19, 2004, to $8,965 billion on March 20, 2006, and to $9,815 billion on September 29, 2007. Each time, in the weeks prior to the increase, the Treasury Department has taken a variety of administrative actions to meet the Government's obligation to pay its bills and invest its trust funds while keeping debt under the existing limit.

Prior to the most recent increase, the Secretary of Treasury wrote Congress in July 2007 that the debt subject to limit would reach the ceiling in early October 2007. Congress passed legislation to increase the limit on September 27 and the President signed the legislation on September 29, before the limit was reached. On September 21, as the anticipated reaching of the limit neared, Treasury announced that it would discontinue the acceptance of subscriptions to the State and local government series of securities, beginning on September 27. On September 28, following Congressional passage of the debt limit increase, Treasury reinstated acceptance of these subscriptions. Because the increase was enacted before the limit was reached, it was not necessary for Treasury to take any other administrative actions.

In most cases, including 2002, 2003, 2004, and 2006, the Government has reached the statutory debt limit before an increase has been enacted. When this has occurred, the Treasury Department has taken additional administrative actions to continue Government operations while remaining below the statutory limit. One such measure is the partial or full disinvestment of the Government Securities Investment Fund (G-fund). This fund is one component of the Thrift Savings Plan (TSP), a defined contribution pension plan for Federal employees. The Secretary has statutory authority to suspend investment of the G-fund in Treasury securities as needed to prevent the debt from exceeding the debt limit. Treasury determines each day the amount of investments that would allow the fund to be invested as fully as possible without exceeding the debt limit. The Treasury Secretary is also authorized to declare a debt issuance suspension period, which allows him or her to redeem a limited amount of securities held by the Civil Service Retirement and Disability Fund (CSRDF) and stop investing its receipts. The law requires that when any such actions are taken with the TSP G-Fund or the CSRDF, the Secretary is required to make the fund whole after the debt limit has been raised by restoring the forgone interest and investing the fund fully. Another measure for staying below the debt limit is disinvestment of the Exchange Stabilization Fund.

In addition to these steps, Treasury has previously replaced regular Treasury securities with borrowing by the Federal Financing Bank, which, as explained above, is not subject to the debt limit. This measure was most recently taken in November 2004, and the outstanding FFB securities will begin to mature in June 2009.

Methods of changing the debt limit.—The statutory limit is usually changed by normal legislative procedures. Under the rules adopted by the House of Representatives, it can also be changed as a consequence of the annual Congressional budget resolution, which is not itself a law. The budget resolution includes a

[9] At the end of 2007, $16 million of FHA debentures was not subject to limit.

[10] The Acts and the statutory limits since 1940 are listed in *Historical Tables, Budget of the United States Government, Fiscal Year 2009*, Table 7.3.

provision specifying the appropriate level of the debt subject to limit at the end of each fiscal year. The rule provides that, when the budget resolution is adopted by both Houses of the Congress, the vote in the House of Representatives is deemed to have been a vote in favor of a Joint Resolution setting the statutory limit at the level specified in the budget resolution. The Joint Resolution is transmitted to the Senate for further action, where it may be amended to change the debt limit provision or in any other way. If it passes both Houses of the Congress, it is sent to the President for his signature. The House of Representatives first adopted this rule for 1980, although it was not included in the rules for several years before 2003. The rule was used for the 2007 debt limit increase.

Federal funds financing and the change in debt subject to limit.—The change in debt held by the public, as shown in Table 16–2, is determined primarily by the total Government deficit or surplus. The debt subject to limit, however, includes not only debt held by the public but also debt held by Government accounts. The change in debt subject to limit is therefore determined both by the factors that determine the total Government deficit or surplus and by the factors that determine the change in debt held by Government accounts. The effect of debt held by Government accounts on the total debt subject to limit is brought out sharply in the second part of Table 16–2. The change in debt held by Government accounts is a large proportion of the change in total debt subject to limit each year and accounts for over two-thirds of the estimated total increase from 2008 through 2013.

The budget is composed of two groups of funds, Federal funds and trust funds. The Federal funds, in the main, are derived from tax receipts and borrowing and are used for the general purposes of the Government. The trust funds, on the other hand, are financed by taxes or other receipts earmarked by law for specified purposes, such as paying Social Security benefits or making grants to State governments for highway construction. [11]

A Federal funds deficit must generally be financed by borrowing, which can be done either by selling securities to the public or by issuing securities to Government accounts that are not within the Federal funds group. Federal funds borrowing consists almost entirely of Treasury securities that are subject to the statutory debt limit. Very little debt subject to statutory limit has been issued for reasons except to finance the Federal funds deficit. The change in debt subject to limit is therefore determined primarily by the Federal funds deficit, which is equal to the difference between the total Government deficit or surplus and the trust fund surplus. Trust fund surpluses are almost entirely invested in securities subject to the debt limit, and trust funds hold most of the debt held by Government accounts. The trust fund surplus reduces the total budget deficit or increases the total budget surplus, decreasing the need to borrow from the public or increasing the ability to repay borrowing from the public. When the trust fund surplus is invested in Federal securities, the debt held by Government accounts increases, offsetting the decrease in debt held by the public by an equal amount. Thus, there is no net effect on gross Federal debt.

Table 16–5 derives the change in debt subject to limit. In 2007 the Federal funds deficit was $411 billion, and other factors increased financing requirements by $41 billion. The rise in the Treasury operating cash balance increased financing requirements by $23 billion and the net financing disbursements of credit financing accounts increased financing requirements by $17 billion. As an offset, special funds and revolving funds, which are part of the Federal funds group, invested $48 billion in Treasury securities. The largest single investment was $19 billion for the uniformed services Medicare-eligible retiree health care fund. In addition, an adjustment is made for the relatively minor difference between the trust fund surplus and the trust funds' investment in Federal securities (including the changes in the National Railroad Retirement Investment Trust's investments in non-Federal securities). As a net result of all these factors, $499 billion in financing was required, increasing gross Federal debt by that amount. Since Federal debt not subject to limit decreased by $0.6 billion and the adjustment for discount and premium changed by $1.1 billion, the debt subject to limit increased by $501 billion, while debt held by the public increased by $206 billion.

The debt subject to limit is estimated to increase to $9,625 billion by the end of 2008. The estimated increases in the debt subject to limit are caused by the continued Federal funds deficit, supplemented by the other factors shown in Table 16–5. While debt held by the public increases by $1,062 billion from the end of 2007 through 2013, debt subject to limit increases by $3,334 billion.

[11] For further discussion of the trust funds and Federal funds groups, see Chapter 22 of this volume, "Trust Funds and Federal Funds."

Table 16–5. FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT

(In billions of dollars)

Description	Actual 2007	Estimate 2008	2009	2010	2011	2012	2013
Change in Gross Federal Debt:							
Federal funds deficit (–)	–410.7	–693.4	–701.6	–484.3	–443.9	–347.0	–345.9
Means of financing other than borrowing—Federal funds [1]	–40.8	18.4	–20.1	–15.2	–14.2	–18.1	–17.8
Decrease or increase (–) in Federal debt held by Federal funds	–48.3	–51.1	–39.2	–41.7	–44.4	–46.8	–45.0
Adjustments for trust fund surplus not invested in Federal securities [2]	0.2	22.4	1.9	0.2	0.5	0.2	0.5
Less: change in unrealized discount on Federal debt held by Federal funds	–0.2	....	....	....	....	....	....
Total financing requirements	–499.4	–703.7	–759.0	–541.0	–502.1	–411.7	–408.3
Change in Debt Subject to Limit:							
Change in gross Federal debt	499.4	703.7	759.0	541.0	502.1	411.7	408.3
Less: increase or decrease (–) in Federal debt not subject to limit	–0.6	–*	–1.9	–1.3	–1.7	–1.8	–1.9
Less: change in adjustment for discount and premium [3]	–1.1	....	....	....	....	....	....
Total, change in debt subject to limit	501.1	703.7	760.8	542.3	503.7	413.4	410.2
ADDENDUM							
Debt subject to statutory limit [4]	8,921.3	9,625.1	10,385.9	10,928.2	11,431.9	11,845.4	12,255.5

* $50 million or less.
[1] Includes Federal fund transactions that correspond to those presented in Table 16–2, but that are for Federal funds alone with respect to the public and trust funds.
[2] Includes trust fund holdings in other cash assets and changes in the investments of the National Railroad Retirement Investment Trust in non-Federal securities.
[3] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds).
[4] The statutory debt limit is $9,815 billion.

Debt Held by Foreign Residents

During most of American history, the Federal debt was held almost entirely by individuals and institutions within the United States. In the late 1960s, foreign holdings were just over $10 billion, less than 5 percent of the total Federal debt held by the public. Foreign holdings began to grow significantly starting in 1970. This increase has been almost entirely due to decisions by foreign central banks, corporations, and individuals, rather than the direct marketing of these securities to foreign residents.

Foreign holdings of Federal debt are presented in Table 16–6. At the end of 2007, foreign holdings of Treasury debt were $2,240 billion, which was 44 percent of the total debt held by the public.[12] Foreign central banks owned 69 percent of the Federal debt held by foreign residents; private investors owned nearly all the rest. The percentage held by foreign central banks is up from 66 percent at the end of 2006. All the Federal debt held by foreign residents is denominated in dollars.

Table 16–6. FOREIGN HOLDINGS OF FEDERAL DEBT

(Dollar amounts in billions)

Fiscal Year	Debt held by the public: Total	Foreign [1]	Percentage foreign	Borrowing from the public: Total [2]	Foreign [1]
1965	260.8	12.3	4.7	3.9	0.3
1970	283.2	14.0	5.0	5.1	3.8
1975	394.7	66.0	16.7	51.0	9.2
1980	711.9	121.7	17.1	71.6	1.4
1985 [3]	1,507.3	222.9	14.8	200.3	N/A
1990 [3]	2,411.6	440.3	18.3	220.8	N/A
1991	2,689.0	477.3	17.7	277.4	37.0
1992	2,999.7	535.2	17.8	310.7	57.9

[12] The debt calculated by the Bureau of Economic Analysis, Department of Commerce, is different, though similar in size, because of a different method of valuing the securities.

Table 16–6. FOREIGN HOLDINGS OF FEDERAL DEBT—Continued

(Dollar amounts in billions)

Fiscal Year	Debt held by the public			Borrowing from the public	
	Total	Foreign [1]	Percentage foreign	Total [2]	Foreign [1]
1993	3,248.4	591.3	18.2	248.7	56.1
1994	3,433.1	655.8	19.1	184.7	64.5
1995 [3]	3,604.4	800.4	22.2	171.3	N/A
1996	3,734.1	993.4	26.6	129.7	193.0
1997	3,772.3	1,230.5	32.6	38.3	237.1
1998	3,721.1	1,224.2	32.9	–51.2	–6.3
1999 [3]	3,632.4	1,281.4	35.3	–88.7	N/A
2000 [3]	3,409.8	1,057.9	31.0	–222.6	N/A
2001	3,319.6	1,005.5	30.3	–90.2	–52.3
2002 [3]	3,540.4	1,200.8	33.9	220.8	N/A
2003	3,913.4	1,454.2	37.2	373.0	253.4
2004	4,295.5	1,798.7	41.9	382.1	344.5
2005	4,592.2	1,930.6	42.0	296.7	131.9
2006	4,829.0	2,027.3	42.0	236.8	96.7
2007	5,035.1	2,240.3	44.5	206.2	213.0

N/A = Not available.

[1] Estimated by Treasury Department. These estimates exclude agency debt, the holdings of which are believed to be small. The data on foreign holdings are recorded by methods that are not fully comparable with the data on debt held by the public. Projections of foreign holdings are not available. The estimates include the effects of benchmark revisions in 1984, 1989, 1994, March 2000, and June 2002, 2003, 2004, 2005, and 2006.

[2] Change in debt held by the public is defined as equal to the change in debt held by the public from the beginning of the year to the end, except to the extent that the amount of debt is changed by reclassification.

[3] Because the change in debt that is recorded as held by foreign residents in these fiscal years reflects benchmark or conceptual revisions as well as net changes in holdings of Federal securities, the change in debt is not shown in these years.

Although the amount of Federal debt held by foreign residents has grown greatly over this period, the proportion that foreign residents own, after increasing abruptly in the very early 1970s, remained about 15–20 percent until the mid-1990s. During 1995–97, however, growth in foreign holdings accelerated, with foreign holdings increasing considerably more than total Federal borrowing from the public. As a result, the Federal debt held by individuals and institutions within the United States decreased in absolute amount during those years, despite further Federal borrowing. The percentage of Federal debt held by foreign residents grew from 19 percent at the end of 1994 to 33 percent at the end of 1997. In the next few years the change in foreign debt holdings was much smaller. Federal debt held by foreign residents grew from 34 percent at the end of 2002 to 42 percent at the end of 2004, and then remained at that level in 2005 and 2006. In 2007, Federal debt held by foreign residents increased by $213 billion, more than the entire change in the debt held by the public. Over the last five years, the increase in foreign holdings was about 70 percent of total Federal borrowing.

Foreign holdings of Federal debt are around 15–20 percent of the foreign-owned assets in the United States, depending on the method of measuring total assets. The foreign purchases of Federal debt securities do not measure the full impact of the capital inflow from abroad on the market for Federal debt securities. The capital inflow supplies additional funds to the credit market generally, and thus affects the market for Federal debt. For example, the capital inflow includes deposits in U.S. financial intermediaries that themselves buy Federal debt.

Federal, Federally Guaranteed, and Other Federally Assisted Borrowing

The effect of the Government on borrowing in the credit market arises not only from its own borrowing to finance Federal operations but also from its assistance to certain borrowing by the public. The Government guarantees borrowing by private and other non-Federal lenders, which is another term for guaranteed lending. In addition to its guarantees, it has established private corporations called “Government-sponsored enterprises,” or GSEs, to provide financial intermediation for specified public purposes; it exempts the interest on most State and local government debt from income tax; it permits mortgage interest to be deducted in calculating taxable income; and it insures the deposits of banks and thrift institutions, which themselves make loans.

Federal credit programs and other forms of assistance are discussed in Chapter 7 of this volume, “Credit and Insurance.” Detailed data are presented in tables at the end of that chapter.

FEDERAL RECEIPTS AND COLLECTIONS

17. FEDERAL RECEIPTS

Receipts (budget and off-budget) are taxes and other collections from the public that result from the exercise of the Federal Government's sovereign or governmental powers. The difference between receipts and outlays is the surplus or deficit.

The Federal Government also collects income from the public from market-oriented activities. Collections from these activities, which are subtracted from gross outlays, rather than added to taxes and other governmental receipts, are discussed in the next Chapter.

Total receipts in 2009 are estimated to be $2,699.9 billion, an increase of $178.8 billion or 7.1 percent relative to 2008. Receipts are projected to grow at an average annual rate of 6.2 percent between 2009 and 2013, rising to $3,428.2 billion. This growth in receipts is largely due to assumed increases in incomes resulting from both real economic growth and inflation.

As a share of Gross Domestic Product (GDP), receipts are projected to increase from 17.6 percent in 2008 to 18.0 percent in 2009, and to rise to 18.8 percent in 2013.

Table 17–1. RECEIPTS BY SOURCE—SUMMARY

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Individual income taxes	1,163.5	1,219.7	1,259.0	1,417.3	1,499.0	1,599.9	1,709.1
Corporation income taxes	370.2	345.3	339.2	338.9	356.8	391.3	379.8
Social insurance and retirement receipts	869.6	910.1	949.4	1,004.0	1,059.7	1,111.4	1,168.5
(On-budget)	(234.5)	(247.9)	(253.8)	(263.9)	(278.3)	(292.9)	(309.4)
(Off-budget)	(635.1)	(662.2)	(695.6)	(740.2)	(781.4)	(818.6)	(859.1)
Excise taxes	65.1	68.8	68.9	60.7	65.9	68.5	69.7
Estate and gift taxes	26.0	26.8	26.3	19.5	1.5	0.4	0.5
Customs duties	26.0	29.2	29.1	30.8	32.5	35.0	37.0
Miscellaneous receipts	47.8	46.3	47.9	50.0	53.2	57.4	59.5
Economic growth package	....	–125.0	–20.0	10.0	8.0	6.0	4.0
Total receipts	2,568.2	2,521.2	2,699.9	2,931.3	3,076.4	3,269.9	3,428.2
(On-budget)	(1,933.2)	(1,859.0)	(2,004.4)	(2,191.2)	(2,295.1)	(2,451.3)	(2,569.1)
(Off-budget)	(635.1)	(662.2)	(695.6)	(740.2)	(781.4)	(818.6)	(859.1)
Total receipts as a percentage of GDP	18.8	17.6	18.0	18.6	18.6	18.8	18.8

Table 17–2. EFFECT ON RECEIPTS OF CHANGES IN THE SOCIAL SECURITY TAXABLE EARNINGS BASE

(In billions of dollars)

	Estimate				
	2009	2010	2011	2012	2013
Social security (OASDI) taxable earnings base increases:					
$102,000 to $106,800 on Jan. 1, 2009	2.4	6.4	7.2	8.0	8.8
$106,800 to $111,600 on Jan. 1, 2010	....	2.4	6.5	7.2	8.0
$111,600 to $116,100 on Jan. 1, 2011	....	....	2.3	6.2	6.8
$116,100 to $121,500 on Jan. 1, 2012	....	....	....	2.8	7.4
$121,500 to $126,900 on Jan. 1, 2013	....	....	....	....	2.9

Chart 17–1. Major Provisions of the Tax Code Under the 2001, 2003, 2004, and 2006 Enacted Tax Relief

Provision	2003	2004	2005	2006	2007	2008	2009	2010	2011
Individual Income Tax Rates	Rates reduced to 35, 33, 28, and 25 percent								Rates revert to 39.6, 36, 31, and 28 percent
10 Percent Bracket	Top of bracket increased to $7,000/$14,000 for single/joint filers and inflation-indexed								Bracket eliminated, lowest bracket reverts to 15 percent
15 Percent Bracket for Joint Filers	Top of bracket for joint filers increased to 200 percent of top of bracket for single filers								Top of bracket for joint filers reverts to 167 percent of top of bracket for single filers
Standard Deduction for Joint Filers	Standard deduction for joint filers increased to 200 percent of standard deduction for single filers								Standard deduction for joint filers reverts to 167 percent of standard deduction for single filers
Child Credit	Tax credit for each qualifying child under age 17 increased to $1,000 and refundability extended to families with 1 or 2 children								Tax credit for each qualifying child under age 17 reverts to $500 and refundability restricted to taxpayers with 3 or more children
Estate Taxes	Top rate reduced to 49 percent	Top rate reduced to 48 percent Exempt amount increased to $1.5 million	Top Rate reduced to 47 percent	Top rate reduced to 46 percent Exempt amount increased to $2 million	Top rate reduced to 45 percent		Exempt amount increased to $3.5 million	Estate tax repealed	Top rate reverts to 60 percent Exempt amount reverts to $1 million
Small Business Expensing	Deduction increased to $100,000, reduced by amount qualifying property exceeds $400,000, and both amounts inflation-indexed Includes software				Deduction increased to $125,000, reduced by amount qualifying property exceeds $500,000, and both amounts inflation-indexed Includes software				Deduction reverts to $25,000, reduced by amount qualifying property exceeds $200,000 and amounts not inflation-indexed Does not apply to software

Chart 17–1. Major Provisions of the Tax Code Under the 2001, 2003, 2004, and 2006 Enacted Tax Relief—Continued

Provision	2003	2004	2005	2006	2007	2008	2009	2010	2011
Capital Gains	Tax rate on capital gains reduced to 5/15 percent					Tax on capital gains eliminated for taxpayers in 10/15 percent tax brackets			Tax rate on capital gains reverts to 10/20 percent (8/18 percent on assets held over 5 years)
Dividends	Tax rate on dividends reduced to 5/15 percent					Tax on dividends eliminated for taxpayers in 10/15 percent tax brackets			Dividends taxed at standard income tax rates
Bonus Depreciation	Bonus depreciation increased to 50 percent of qualified property aquired after 5/5/03		Bonus depreciation expires						
Alternative Minimum Tax	AMT exemption amount increased to $40,250/$58,000 for single/joint filers			AMT exemption amount increased to $42,500/$62,550 for single /joint filers	AMT exemption amount increased to $44,350/ $66,250 for single /joint filers	AMT exemption amount reverts to $33,750/ $45,000 for single /joint filers			

ENACTED LEGISLATION

Several laws were enacted in 2007 that have an effect on governmental receipts. The major legislative changes affecting receipts are described below.

U.S. TROOP READINESS, VETERANS' CARE, KATRINA RECOVERY, AND IRAQ ACCOUNTABILITY APPROPRIATIONS ACT, 2007

The U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 was signed by President Bush on May 25, 2007. In addition to increasing the minimum wage and providing funding for the Global War on Terror, hurricane disaster relief and other purposes, this Act provided tax relief to small businesses that was in large part offset by other tax changes. The major provisions of this Act that affected governmental receipts are described below.

Tax Incentives for Small Business

Extend and increase expensing for small businesses.—Under prior law, business taxpayers were allowed to expense up to $100,000 in annual investment expenditures for qualifying property (expanded to include off-the-shelf computer software) placed in service in taxable years beginning after 2002 and before 2010. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded $400,000. Both the deduction and annual investment limit were indexed annually for inflation, effective for taxable years beginning after 2003 and before 2010. Also, with respect to a taxable year beginning after 2002 and before 2010, taxpayers were permitted to make or revoke expensing elections on amended returns without the consent of the Internal Revenue Service (IRS) Commissioner. This Act extended for one year, through 2010, the prior law rules applicable to small business expensing in taxable years beginning after 2002 and before 2010. This Act also increased the deduction and annual investment limit to $125,000 and $500,000, respectively, effective for taxable years beginning after 2006 and before 2011. Both the deduction and annual investment limit were indexed annually for inflation, effective for taxable years beginning after 2007 and before 2011.

Extend and modify the work opportunity tax credit (WOTC).—The WOTC provides incentives to employers for hiring individuals from certain targeted groups. Under prior law, the credit expired with respect to wages paid to qualified individuals who began work after December 31, 2007. This Act extended the credit to apply to qualified wages paid to workers hired before September 1, 2011 and expanded the eligibility criteria for certain targeted groups.

Modify tax credit for tips.—Businesses are allowed to pay a tip-earning employee wages that are below the minimum wage if the combined value of the employee's tips and reduced wage exceeds the minimum wage.

Businesses are also required to pay social security and Medicare payroll taxes on both the wages and tip income of their employees; however, a "tip credit" may be claimed for the payroll taxes paid on tips in excess of the minimum wage. This Act increased the minimum wage in three stages over 24 months, from $5.15 per hour to $7.25 per hour. To prevent a reduction in the "tip credit" that would occur as a result of this increase in the minimum wage, this Act allowed employers to continue to calculate the tip credit using the minimum wage in effect on January 1, 2007 ($5.15 per hour).

Allow "tip credit" and WOTC against the alternative minimum tax (AMT).—Taxpayers generally are not allowed to offset AMT liability with business tax credits. Effective for taxable years beginning after December 31, 2006, this Act waived this limitation with respect to the WOTC and the "tip credit," thereby allowing taxpayers (both individuals and corporations) to offset AMT liability with these two credits.

Simplify the taxation of a family business owned by a husband and wife.—Under current law, each member of a partnership pays the taxes on his or her distributive share of the earnings of the partnership. A partnership includes a syndicate, group, pool, joint venture, or other unincorporated organization through or by means of which any business, financial operation or venture is carried on, and that is not a trust or estate or a corporation. Under this Act, effective for taxable years beginning after December 31, 2006, a qualified joint venture whose only members are a husband and wife filing a joint return is permitted to elect not to be treated as a partnership for Federal income and self-employment tax purposes if each spouse materially participates in the venture's trade or business. All items of income, gain, loss, deduction and credit from the trade or business must be divided between the spouses in accordance with their respective interest in the venture and each spouse must take into account his or her respective share of those items as if he or she were a sole proprietor.

Taxation of S Corporations

Modify taxation of S corporations.—In general, S corporations do not pay Federal income tax. Instead, an S corporation passes through its items of income and loss to its shareholders. Each shareholder separately accounts for his or her share of these items on his or her individual income tax return. This Act included provisions that modified the taxation of S corporations, with the following major changes that: (1) excluded gains from the sale of stock or securities from treatment as an item of passive investment income; (2) excluded restricted stock in a bank held by bank directors from treatment as S corporation stock; (3) modified the treatment of banks that become S corporations and change from the reserve method of accounting for bad debts; (4) modified the treatment of sales of stock of qualified subsidiaries of S corporations; (5) modified the treatment of pre-1983 accumulated earnings and profits of certain S corporations; and (6) permitted electing small business trusts to deduct interest expenses incurred on funds borrowed to purchase S corporation stock.

Hurricane-Related Tax Relief

Extend and modify certain tax relief provided to individuals and businesses affected by hurricanes along the Gulf coast in 2005.—Several laws were enacted in 2005 that provided tax relief to individuals and businesses affected by hurricanes Katrina, Rita and Wilma. This Act extended and/or modified several of the tax incentives enacted in 2005; the specific changes included the following: (1) a one-year extension of the enhanced small business expensing provided to qualified Gulf Opportunity Zone (GO Zone) property; (2) a two-year extension of the enhanced low-income housing tax credit for property in the GO Zone, the Rita GO Zone and the Wilma GO Zone, and expansion of the credit; and (3) the expansion of special tax-exempt bond financing rules to apply to the repair and reconstruction of residential property in the GO Zone, the Rita GO Zone and the Wilma GO Zone.

Pension-Related Provisions

Modify several provisions of the Pension Protection Act of 2006.—This Act modified several provisions of the Pension Protection Act of 2006, which was the most sweeping reform of America's pension system enacted in 30 years. Major changes included the following: (1) modification of the ability to revoke the election relating to treatment as a multiemployer plan; (2) modification of the requirements for qualified transfers under section 420; (3) extension of alternative deficit reduction contribution rules for commercial passenger airlines; and (4) modification of the interest rate used by plans maintained by commercial passenger airlines and airline catering companies to calculate pension liability.

Offsets

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15, and December 15 (if these dates fall on a holiday or weekend, payment is due on the next business day). This Act increased the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 114.25 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

Modify taxation of unearned income of minors.—An unmarried individual eligible to be claimed as a dependent on another taxpayer's individual income tax return generally must file an individual income tax return if he or she has: (1) earned income only over $5,350 (for 2007); (2) unearned income only over the minimum standard deduction amount for dependents ($850 in 2007); or (3) both earned income and unearned income totaling more than the smaller of (a) $5,350 (for 2007) or (b) the larger of (i) $850 (for 2007) or (ii) earned income plus $300. Under prior law, unearned income of a child was taxed under special rules if: (1) the child had not reached the age of 18 by the close of the taxable year, (2) the child's unearned income (income other than wages, salaries, professional fees, or other amounts received as compensation for personal services actually rendered) was more than $1,700 (for 2007), and (3) the child was required to file a return for the year. These special rules (referred to as the "kiddie tax") applied if the child could have been claimed as a dependent on the parent's return, regardless of whether the parent actually claimed the child as a dependent. Under the kiddie tax, the child's net unearned income over $1,700 (for 2007) was taxed at the parent's tax rate if that rate was higher than the child's rate. The remainder of a child's taxable income was taxed at the child's tax rate, regardless of whether the kiddie tax applied. Effective for taxable years beginning after May 25, 2007, this Act increased the age to which the kiddie tax applies from under 18 years of age to under 19 years of age (under 24 years of age for full-time students, provided their earned income does not exceed one-half of the amount of their support).

Modify period of suspension of penalties and interest on unpaid taxes.—In general, interest and penalties accrue during periods for which taxes are unpaid, without regard to whether the taxpayer was aware that there was tax due. However, under prior law, if an individual taxpayer filed a timely return and the IRS did not send the taxpayer a notice of the unpaid liability and the basis for that liability, interest and penalties generally were suspended starting 18 months after the filing of the return. The suspension did not apply to underpayments attributable to fraud, listed transactions, and undisclosed reportable transactions, or to criminal or failure-to-pay penalties. Interest and penalties resumed 21 days after the IRS sent the required notice. This Act extended the period before which accrual of interest and certain penalties are suspended to 36 months after the filing of the return, effective for IRS notices issued after November 25, 2007.

Modify collection due process procedures for employment tax liabilities.—Employers are required to withhold and pay Federal Insurance Contribution Act (FICA) taxes and income taxes, and are required to pay Federal Unemployment Tax Act (FUTA) taxes (collectively "Federal employment taxes") with respect to wages paid to their employees. In order to ensure the payment and collection of Federal employment taxes, the IRS is authorized to take various collection actions, including the issuance of a levy. A levy is the IRS's administrative authority to seize a taxpayer's property to pay the taxpayer's liability if a Federal tax lien has been attached to such property. Before a tax levy could be issued under prior law, the IRS generally was required to provide the taxpayer with notice and an opportunity for an administrative collection due process (CDP) hearing, and for judicial review. This pre-levy CDP hearing requirement did not apply to levies issued to collect Federal tax liability from a State tax refund; instead, such taxpayers were provided a CDP hearing within a reasonable period of time after the levy. This Act expanded the exception to the requirement for a pre-levy CDP hearing to include levies issued on or after September 27, 2007 to collect Federal employment taxes for any taxable period if the taxpayer subject to the levy requested a CDP hearing with respect to unpaid employment taxes arising in the two-year period before the beginning of the taxable period with respect to which the employment tax levy was served.

Permanently extend IRS user fees.—The IRS has authority to charge fees for written responses to questions from individuals, corporations, and organizations related to their tax status or the effects of particular transactions for tax purposes. This Act permanently extended authority for these fees, which had been scheduled to expire effective with requests made after September 30, 2014.

Increase penalty for bad checks and money orders.—The IRS has authority to impose a penalty on taxpayers who issue a bad check or money order. Under prior law, the penalty was two percent of the amount of the bad check or money order, with a minimum penalty of $15 or, if less, the amount of the check or money order, on checks and money orders less than $750. Effective with respect to checks or money orders issued after May 25, 2007, this Act increased the minimum penalty to $25 or if less, the amount of the check or money order, on checks and money orders less than $1,250.

Expand penalties on tax return preparers.—Under prior law, an income tax return preparer who prepared a return with respect to which there was an understatement of tax due to an undisclosed position for which there was not a realistic possibility of being sustained on its merits, or a frivolous position, was liable for a first-tier penalty of $250, provided the preparer knew or reasonably should have known of the position. An income tax return preparer who engaged in specified willful or reckless conduct with respect to preparing a return was liable for a second-tier penalty of $1,000. Effective for tax returns prepared after May 25, 2007, this Act: (1) broadened the scope of tax return preparer penalties to include preparers of estate and gift, employment, and excise tax returns, and returns of exempt organizations; (2) increased the first-tier penalty to the greater of $1,000 or 50 percent of the income derived (or to be derived) by the tax return preparer from the preparation of the return or claim with respect to which the penalty was imposed; (3) increased the second-tier penalty to the greater of $5,000 or 50 percent of the income derived (or to be derived) by the tax return preparer; and (4) altered the standards of conduct that must be met to avoid imposition of the penalties for preparing a return with respect to which there is an understatement of tax.

Levy a penalty on erroneous refund claims.—Effective for returns filed on or after May 25, 2007, this Act imposed a penalty of 20 percent on the disallowed portion of a claim for refund or credit for which there was no reasonable basis for the claimed tax treatment or for which the taxpayer did not have reasonable cause. The penalty does not apply to any portion of the disallowed portion of the claim for refund or credit: (1) relating to the earned income credit, or (2) subject to accuracy-related or fraud penalties.

AN ACT TO EXTEND THE AUTHORITIES OF THE ANDEAN TRADE PREFERENCE ACT (ATPA) UNTIL FEBRUARY 29, 2008

The ATPA, which was scheduled to expire after June 30, 2007, was designed to provide economic alternatives for Bolivia, Columbia, Ecuador, and Peru in their fight against narcotics production and trafficking. This Act, which was signed by President Bush on June 30, 2007, extended the provisions of the ATPA for eight months, through February 29, 2008. This Act also increased the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 114.5 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

APPROVING THE RENEWAL OF IMPORT RESTRICTIONS CONTAINED IN THE BURMESE FREEDOM AND DEMOCRACY ACT OF 2003

The Act, which was signed by President Bush on August 1, 2007, extended for one year, through July 28, 2008, the ban on all imports from Burma. This Act also increased the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 114.75 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

AN ACT TO EXTEND THE TRADE ADJUSTMENT ASSISTANCE PROGRAM UNDER THE TRADE ACT OF 1974 FOR 3 MONTHS

This Act extended the trade adjustment assistance program for farmers, which was scheduled to expire September 31, 2007, for three months through December 31, 2007. This Act, which was signed by President Bush on September 28, 2007, also affected governmental receipts by increasing the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 115 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

UNITED STATES-PERU TRADE PROMOTION AGREEMENT IMPLEMENTATION ACT

This Act, which was signed by President Bush on December 14, 2007, approved and provided for tariff reductions and other changes in law related to U.S. implementation of the United States-Peru Free Trade Agreement, as signed by the United States and Peru on April 12, 2006 and amended through a Protocol signed in Washington, D.C. on June 24, 2007 and in Lima on June 25, 2007. When this Agreement enters into force, it will level the playing field for American exporters and investors, expand an important market in this hemisphere for U.S. goods and services, allow Peru to lock in access to the largest market in the world, and signal America's firm support for those who share the Nation's values of freedom and democracy and expanding opportunity for all.

This Act also affected governmental receipts by increasing the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 115.75 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

ENERGY INDEPENDENCE AND SECURITY ACT OF 2007

This Act, which was signed by President Bush on December 19, 2007, represented a major step forward in expanding the production of renewable fuels, reducing the Nation's dependence on oil, and making America stronger, safer, and cleaner for future generations. The major provisions of this Act that affected governmental receipts are described below:

Modify Corporate Average Fuel Economy (CAFE) standards.—Under prior law, passenger cars and non-passenger cars (light trucks and SUVs) were required to meet CAFE standards of 27.5 miles per gallon and 22.2 miles per gallon, respectively. These standards were written into law in 1975. Beginning with model year 2011, this Act required the Department of Transportation (DOT) to prescribe separate, attribute-based CAFE standards for passenger cars and non-passenger cars that would reach a combined fleet average of at least 35 miles per gallon by model year 2020. This Act also required DOT, after consultation with the Department of Energy and the Environmental Protection Agency, to prescribe separate CAFE standards for work trucks (vehicles weighing between 8,500 and 10,000 pounds) and commercial medium- and heavy-duty vehicles (weighing over 10,000 pounds).

Modify Renewable Fuel Standard (RFS).—Under prior law, 7.5 billion gallons of renewable fuels were required to be blended with conventional fuel sold in the United States by 2012. Beginning in 2008, this Act required the blending of specified minimum volumes of renewable fuels each year, rising from 9 billion gallons in 2008 to 36 billion gallons by 2022.

Modify amortization for certain geological and geophysical expenditures.—Geological and geophysical expenditures (G&G costs) are costs incurred by a taxpayer for the purpose of obtaining and accumulating data that will serve as the basis for the acquisition and retention of mineral properties by taxpayers exploring for minerals. Under the Energy Policy Act of 2005, G&G costs paid or incurred in taxable years beginning after August 8, 2005, in connection with oil and gas exploration in the United States, could be amortized over two years. The Tax Increase Prevention and Reconciliation Act of 2006 increased the amortization period to five years for G&G costs paid or incurred by certain major integrated oil companies after May 17, 2006. This five-year amortization rule applied only to integrated oil companies that had an average daily worldwide production of crude oil of at least 500,000 barrels for the taxable year, had gross receipts in excess of $1 billion in the last taxable year ending during calendar year 2005, and were either a crude oil refiner or related to a crude oil refiner. This Act increased the amortization period for G&G costs paid or incurred by these major integrated oil companies from five to seven years, effective for amounts paid or incurred in taxable years beginning after December 19, 2007.

Extend unemployment insurance surtax.—Under prior law the Federal unemployment tax on employers was scheduled to drop from 0.8 percent to 0.6 percent with respect to wages paid after December 31, 2007. This Act extended the 0.8 percent rate for one year, through December 31, 2008.

TAX RELIEF FOR RECIPIENTS OF DISBURSEMENTS FROM THE HOKIE SPIRIT MEMORIAL FUND

The Virginia Tech Foundation was established in 1948 to receive, manage, and disburse private gifts in support of programs of Virginia Polytechnic Institute and State University (Virginia Tech). The Hokie Spirit Memorial Fund was established by the Virginia Tech Foundation as a vehicle to receive financial donations from donors to assist families and victims of the April 16, 2007 shootings at Virginia Tech. This Act, which was signed by President Bush on December 19, 2007, excluded from gross income amounts received from this fund as payments in connection with the April 16, 2007 shootings at Virginia Tech. In addition, effective for taxable years beginning in 2008, this Act increased the penalty for failure to file a partnership return from $50 to $51 per partner for each month that the failure continues, up to a maximum of five months.

MORTGAGE FORGIVENESS DEBT RELIEF ACT OF 2007

This Act, which was signed by President Bush on December 20, 2007, provided housing-related tax relief to financially-troubled homeowners, provided tax relief for volunteer firefighters and emergency medical responders, modified several tax penalties, and modified the timing of estimated tax payments by corporations. The major provisions of this Act that affected governmental receipts are described below.

Housing-Related Tax Relief

Exclude discharges of indebtedness on principal residences from gross income—Gross income generally includes income realized by a debtor from the discharge of indebtedness, subject to certain exceptions (debtors in Title 11 bankruptcy cases, insolvent debtors, certain student loan indebtedness, certain farm indebtedness, and certain real property business indebtedness). In cases involving discharges of indebtedness excluded from gross income under the exceptions to the general rule, taxpayers generally must reduce certain tax attributes, including basis in the property, by the amount of the discharge of indebtedness. However, the amount of discharge of indebtedness excluded from gross income by an insolvent debtor not in a Title 11 bankruptcy case cannot exceed the amount by which the debtor is insolvent. The amount of discharge of indebtedness generally is equal to the difference between the amount of debt being cancelled and the amount used to satisfy the debt. This Act expanded the types of discharges of indebtedness excluded from gross income to include up to $2 million (or up to $1 million per spouse, if a married couple files separately) of qualified principal residence indebtedness discharged on or after January 1, 2007 and before January 1, 2010. The exclusion does not apply to discharges on account of services performed for the lender or any other factor not directly related to a decline in the value of the residence or to the financial condition of the taxpayer; in addition, the basis in the principal residence must be reduced by the amount of discharge of indebtedness excluded from gross income.

Extend the deduction for qualified mortgage insurance premiums.—This Act extended the deduction for certain premiums paid or accrued for qualified mortgage insurance for three years, to apply to amounts paid or accrued after December 31, 2007 and before January 1, 2011.

Increase maximum capital gains exclusion on certain sales of principal residences by surviving spouses.—Under current law, an individual taxpayer may exclude from tax up to $250,000 ($500,000 if married and filing a joint return) of gain realized on the sale or exchange of a principal residence, provided the taxpayer owned and used the residence as a principal residence for at least two of the five years ending on the date of the sale or exchange. Effective for sales or exchanges after December 31, 2007, this Act increased the maximum amount of gain a surviving spouse can exclude from tax on the sale or exchange of a principal residence to $500,000, provided the sale or exchange occurs within two years of death of the spouse.

Provide other housing-related tax relief.—Other housing-related tax relief provided in this Act: (1) amended the requirements for qualification as a cooperative housing corporation, and (2) modified the requirements for qualification as low-income housing units for purposes of the low-income housing tax credit.

Tax Relief for Volunteer Firefighters and Emergency Medical Responders

Provide exclusion from gross income for benefits provided to volunteer firefighters and emergency medical responders.—This Act provided an exclusion from gross income to any member of a qualified volunteer emergency response organization for: (1) any reduction or rebate of tax provided by a State or political division thereof on account of services performed as a member of a qualified volunteer emergency response organization, and (2) any payment, up to an annual maximum of $30 times the number of months during the year in which services were performed, provided by a State or political division thereof on account of the performance of services as a member of a qualified volunteer emergency response organization. Under this Act, a qualified emergency response organization is any volunteer organization: (1) organized and operated to provide firefighting or emergency medical services for persons in the State or political subdivision, and (2) required (by written agreement) by the State or political subdivision to furnish firefighting or emergency medical services in such State or political subdivision. The exclusion applies to payments, tax rebates and tax reductions provide on account of services performed in taxable years beginning after December 31, 2007 and before January 1, 2011.

Offsets

Increase the penalty for failure to file a partnership return.—This Act increased the penalty imposed on partnerships for failure to file a partnership return to $85 per partner for each month that the failure continues, up to a maximum of twelve months, effective for returns required to be filed after December 20, 2007.

Impose a penalty on S corporations for failure to file a return.—This Act imposed a penalty on S corporations that fail to file a return or that fail to file required information. The penalty of $85 per shareholder for each month that the failure continues, up to a maximum of twelve months, is effective for returns required to be filed after December 20, 2007.

Modify the timing of estimated tax payments by corporations.—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis, these payments are due on or before April 15, June 15, September 15, and December 15 (if these dates fall on a holiday or weekend, payment is due on the next business day). This Act increased the estimated tax payments due in July through September by corporations with assets of at least $1 billion to 117.25 percent of the amount otherwise due in 2012. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

TAX INCREASE PREVENTION ACT OF 2007

This Act, which was signed by President Bush on December 26, 2007, provided Alternative Minimum Tax (AMT) relief for 2007, thereby protecting millions of Americans from an unexpected tax increase. The major provisions of this Act that affected governmental receipts are described below.

Increase and extend AMT exemption amounts.— A temporary provision of prior law increased the AMT exemption amounts to $42,500 for single taxpayers, $62,550 for married taxpayers filing a joint return and surviving spouses, and $31,275 for married taxpayers filing a separate return and estates and trusts. These temporary increases were effective for taxable years beginning after December 31, 2005 and before January 1, 2007. This Act increased the AMT exemption amounts, effective for taxable years beginning after December 31, 2006 and before January 1, 2008, to $44,350 for single taxpayers, $66,250 for married taxpayers filing a joint return and surviving spouses, and $33,125 for married taxpayers filing a separate return and estates and trusts.

Extend AMT relief for nonrefundable personal credits.—Under a temporary provision of prior law, taxpayers were permitted to offset both the regular tax and the AMT with nonrefundable personal tax credits, effective for taxable years beginning before January 1, 2007. This Act extended minimum tax relief for nonrefundable personal tax credits for one year, to apply to taxable year 2007. The extension does not apply to the child credit, the saver's credit, the earned income credit (EITC), or the adoption credit, which were provided AMT relief through December 31, 2010 under the 2001 tax cut. The refundable portion of the child credit and the earned income tax credit are also allowed against the AMT through December 31, 2010.

TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

This Act, which was signed by President Bush on December 26, 2007, extended for seven years the Federal terrorism risk insurance program that had been established under the Terrorism Risk Insurance Act of 2002 and was scheduled to expire on December 31, 2007. This Act also expanded coverage to include acts of domestic terrorism, required the issuance of regulations for determining the pro rata share of insured losses to be paid by each insurer that incurs losses when such losses exceed $100 billion in any program year, and set up a mechanism for the Federal government to recoup 133 percent of Federal payments under the program, up to a maximum of $27.5 billion, through a surcharge imposed on insurance premiums. These payments, which would be governmental receipts, would be collected as follows: (1) for any act of terrorism that occurred on or before December 31, 2010, all required payments would be due by September 30, 2012; (2) for any act of terrorism that occurred in calendar year 2011, 35 percent of required payments would be due by September 30, 2012 and the remainder would be due by September 30, 2017; and (3) for any act of terrorism that occurred on or after January 1, 2012, all required payments would be due by September 30, 2017.

TAX TECHNICAL CORRECTIONS ACT OF 2007

This Act, which was signed by President Bush on December 29, 2007, provided technical corrections to tax laws enacted between 1998 and 2006. The amendments provided in this Act clarified or adjusted previously enacted provisions in a manner consistent with the underlying legislative intent and generally took effect as if included in the original legislation.

ADMINISTRATION PROPOSALS

STIMULATE ECONOMIC GROWTH AND JOB CREATION IN 2008 AND IMPROVE THE TAX SYSTEM TO MAKE THE U.S. MORE COMPETITIVE

The President believes that it is critical for Congress to quickly pass an economic growth package that will keep our economy expanding and creating jobs and that puts more money in the hands of American workers and businesses, who are the engines of the Nation's economic growth. The Administration will work with Congress in a bipartisan manner to enact initiatives that provide temporary, immediate, and effective support to the Nation's economy.

As a longer-term consideration, Americans deserve a tax system that is simple, fair and pro-growth—in tune with the Nation's dynamic, 21st century economy. The tax system also should promote the competitiveness of American workers and businesses in the global economy. The report, *Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century,* released by the Treasury Department in December, outlines several broad approaches to business tax reform to lay the groundwork for discussion of ways to ensure that the Nation's business tax system better meets the needs of American workers and businesses in today's global economy.

The President's tax relief enacted in 2001 and 2003 made the tax code simpler, fairer, and more pro-growth. The President has proposed changes that would move the tax code further in this direction. The Budget includes proposals to make health care more affordable and consumer-driven, to promote savings for all Americans, and to encourage investment by entrepreneurs.

MAKE PERMANENT CERTAIN TAX RELIEF ENACTED IN 2001 AND 2003

Permanently extend reductions in individual income taxes on capital gains and dividends.—The maximum individual income tax rate on net capital gains and dividends is 15 percent for taxpayers in individual income tax rate brackets above 15 percent and 5 percent (zero in 2008, 2009 and 2010) for lower income taxpayers. The Administration proposes to permanently extend these reduced rates (15 percent and zero), which are scheduled to expire on December 31, 2010.

Permanently extend increased expensing for small businesses.—Under temporary provisions of current law, small business taxpayers are allowed to expense up to $125,000 in annual investment expenditures for qualifying property (expanded to include off-the-shelf computer software) placed in service in taxable years beginning after 2006 and before 2011. The maximum amount that may be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds $500,000. Both the deduction and annual investment limits are indexed annually for inflation effective for taxable years beginning after 2007 and before 2011. Also, with respect to taxable years beginning after 2002 and before 2011, taxpayers are permitted to make or revoke expensing elections on amended returns without the consent of the IRS Commissioner. The Administration proposes to permanently extend each of these temporary provisions, applicable for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning after 2010.

Permanently extend provisions expiring in 2010.—Most of the provisions of the 2001 tax relief sunset on December 31, 2010. The Administration proposes to extend those provisions permanently.

TAX INCENTIVES

Simplify and Encourage Saving

Expand tax-free savings opportunities.—Under current law, individuals can contribute to traditional IRAs, nondeductible IRAs, and Roth IRAs, each subject to different sets of rules. For example, contributions to traditional IRAs are deductible, while distributions are taxed; contributions to Roth IRAs are taxed, but distributions are excluded from income. In addition, eligibility to contribute is subject to various age and income limits. While primarily intended for retirement saving, withdrawals for certain education, medical, and other non-retirement expenses are penalty free. The eligibility and withdrawal restrictions for these accounts complicate compliance and limit incentives to save.

The Administration proposes to replace current law IRAs with two new savings accounts: a Lifetime Savings Account (LSA) and a Retirement Savings Account (RSA). Regardless of age or income, individuals could make annual nondeductible contributions of $2,000 to an LSA and $5,000 (or earnings if less) to an RSA. Distributions from an LSA would be excluded from income and could be made at any time for any purpose without restriction. Distributions from an RSA would be excluded from income after attaining age 58 or in the event of death or disability. All other distributions would be included in income (to the extent they exceed basis) and subject to an additional tax. Distributions would be deemed to come from basis first. The proposal would be effective for contributions made after December 31, 2008 and future year contribution limits would be indexed for inflation.

Existing Roth IRAs would be renamed RSAs and would be subject to the new rules for RSAs. Existing traditional and nondeductible IRAs could be converted into an RSA by including the conversion amount (excluding basis) in gross income, similar to a current-law Roth conversion. However, no income limit would apply to the ability to convert. Taxpayers who convert IRAs to RSAs before January 1, 2010 could spread the included conversion amount over four years. Existing traditional or nondeductible IRAs that are not converted to RSAs could not accept new contributions. New traditional IRAs could be created to accommodate rollovers from employer plans, but they could not accept new individual contributions. Individuals wishing to roll an amount directly from an employer plan to an RSA could do so by including the rollover amount (excluding basis) in gross income (i.e., "converting" the rollover, similar to a current law Roth conversion).

Consolidate employer-based savings accounts.—Current law provides multiple types of tax-preferred employer-based savings accounts to encourage saving for retirement. The accounts have similar goals but are subject to different sets of rules regulating eligibility, contribution limits, tax treatment, and withdrawal restrictions. For example, 401(k) plans for private employers, SIMPLE 401(k) plans for small employers, 403(b) plans for 501(c)(3) organizations and public schools, and 457 plans for State and local governments are all subject to different rules. To qualify for tax benefits, plans must satisfy multiple requirements. Among the requirements, the plan generally may not discriminate in favor of highly compensated employees with regard either to coverage or to amount or availability of contributions or benefits. Rules covering employer-based savings accounts are among the lengthiest and most complicated sections of the tax code and associated regulations. This complexity imposes substantial costs on employers, participants, and the Government, and likely has inhibited the adoption of retirement plans by employers, especially small employers.

The Administration proposes to consolidate 401(k), SIMPLE 401(k), 403(b), and 457 plans, as well as SIMPLE IRAs and SARSEPs, into a single type of plan—Employee Retirement Savings Accounts (ERSAs) that would be available to all employers. ERSA non-discrimination rules would be simpler and include a new ERSA non-discrimination safe-harbor. Under one of the safe-harbor options, a plan would satisfy the nondiscrimination rules with respect to employee deferrals and employee contributions if it provided a 50-percent match on elective contributions up to six percent of compensation. By creating a simplified and uniform set of rules, the proposal would substantially reduce complexity. The proposal would be effective for taxable years beginning after December 31, 2008.

Encourage Entrepreneurship and Investment

Increase expensing for small businesses.—Business taxpayers are currently allowed to expense up to $125,000 in annual investment expenditures for qualifying property (expanded to include off-the-shelf computer software) placed in service in taxable years beginning after 2006 and before 2011. The maximum amount that may be expensed is reduced by the amount by which the taxpayer's cost of qualifying property exceeds $500,000. Both the deduction and annual investment limits are indexed annually for inflation, effective for taxable years beginning after 2007 and before 2011. Also, with respect to a taxable year beginning after 2002 and before 2011, taxpayers are permitted to make or revoke expensing elections on amended returns without the consent of the IRS Commissioner. The Administration proposes to increase the amount of annual investment expenditures that taxpayers are allowed to expense to $200,000, and to raise the amount of qualifying investment at which the phase-out begins to $800,000, effective for qualifying property placed in service in taxable years beginning after 2008. These higher amounts would be indexed for inflation, effective for taxable years beginning after 2009.

Invest in Health Care

Provide a new standard deduction for health insurance ($15,000 for family coverage and $7,500 for individual coverage).—The Administration proposes to provide a standardized deduction for health insurance (SDHI) of $15,000 to all families who purchase health insurance ($7,500 for those purchasing individual coverage), whether directly or through an employer, that meets minimum requirements. The full deduction would apply regardless of how much a family or individual spends on health insurance; that is, a family or individual that spends less than the full deduction on health insurance would still receive the full deduction. The deduction would apply for purposes of both the income and payroll tax.

The new, flat deduction would replace the existing exclusion for employer-provided health insurance, the self-employed premium deduction, and the medical itemized deduction. Coverage under Medicare or Medicaid would not entitle an individual for the SDHI. As a result of the proposal, the current exclusion or deduction from income of health care spending, whether for insurance premiums or out-of-pocket expenses, except under a Health Savings Account (HSA), would also be repealed. However, itemized medical deductions would still be available for some taxpayers such as individuals enrolled in Medicare who are not otherwise eligible for the SDHI.

Businesses would continue to deduct employer-provided health insurance as a business expense. In addition, the phase-out rate for the EITC for taxpayers with qualifying children would be reduced to 15 percent. These provisions would be effective for tax years beginning after December 31, 2008.

Expand and make health savings accounts (HSAs) more flexible.—Current law allows individuals to accumulate funds in an HSA or medical savings account (MSA) on a tax-preferred basis to pay for medical expenses, provided they are covered by an HSA-qualified high-deductible health plan (HDHP), and no other health plan. Under current law, individual contributions to HSAs are deductible for income tax purposes, while employer contributions to HSAs are excluded from both the income and payroll tax. The higher deductible under HSA-qualified health plans increases the cost consciousness of health care consumers by increasing their exposure to the cost of health care.

In addition to higher deductibles, the Administration also recognizes that higher coinsurance levels encourage cost consciousness among health care consumers. Therefore, the Administration proposes to allow health plans to be considered HSA-eligible if they meet all the existing requirements of an HDHP except that, in lieu of satisfying the minimum deductible requirement, they have at least a 50 percent coinsurance requirement and a minimum out-of-pocket exposure that would result in the same (or lower) premium as coverage under a high-deductible health plan under the current requirements for the same family or individual.

The Administration also proposes that additional changes be made to HSAs to encourage the use of HSAs and coverage under the HSA-eligible high-deductible health plans including: (1) allowing family coverage to include coverage where each individual in the family can receive benefits once they have reached the minimum deductible for an individual HDHP; (2) allowing both spouses to contribute the catch-up contribution to a single HSA owned by one spouse if both spouses are eligible individuals; (3) allowing an individual to be covered by a flexible spending arrangement (FSA) or health reimbursement arrangement (HRA) with first dollar coverage and still contribute to an HSA, but offset the maximum allowable HSA contribution by the level of FSA or HRA coverage; (4) allowing qualified medical expenses to include any medical expense incurred on or after the first day of HDHP coverage if individuals have established an HSA by their return filing date for that year; and (5) excluding from the comparability rules extra employer contributions to HSAs on behalf of employees who are chronically ill or employees who have spouses or dependents who are chronically ill. All of the HSA-related proposals would be effective for years beginning after December 31, 2008.

Allow the orphan drug tax credit for certain pre-designation expenses.—Current law provides a 50-percent credit for expenses related to human clinical testing of drugs for the treatment of certain rare diseases and conditions (“orphan drugs”). A taxpayer may claim the credit only for expenses incurred after the Food and Drug Administration (FDA) designates a drug as a potential treatment for a rare disease or condition. This creates an incentive to defer clinical testing for orphan drugs until the taxpayer receives the FDA’s approval and increases complexity for taxpayers by treating pre-designation and post-designation clinical expenses differently. The Administration proposes to allow taxpayers to claim the orphan drug credit for expenses incurred prior to FDA designation if designation occurs before the due date (including extensions) for filing the tax return for the year in which the FDA application was filed. The proposal would be effective for qualified expenses incurred after December 31, 2007.

Provide Incentives for Charitable Giving

Permanently extend tax-free withdrawals from IRAs for charitable contributions.—Under current law, eligible individuals may make deductible or nondeductible contributions to a traditional IRA and nondeductible contributions to a Roth IRA. Pre-tax contributions and earnings in a traditional IRA are included in income when withdrawn. Qualified withdrawals from a Roth IRA are excluded from gross income; withdrawals that are not qualified are included in gross income to the extent attributable to earnings. The Pension Protection Act of 2006 provided an exclusion from gross income for otherwise taxable distributions from a traditional or a Roth IRA made directly to a qualified charitable organization. The exclusion may not exceed $100,000 per taxpayer per taxable year, is applicable only to distributions made on or after the date the IRA owner attains age 70 1/2, and is effective for distributions made in taxable years beginning after December 31, 2005 and before January 1, 2008. The exclusion applies only if a charitable contribution deduction for the entire distribution would otherwise be allowable under current law, determined without regard to the percentage-of-AGI limitation. No charitable deduction is allowed with respect to any amount excludable from income under this provision. The Administration proposes to permanently extend this exclusion, effective for distributions made in taxable years beginning after December 31, 2007.

Permanently extend the enhanced charitable deduction for contributions of food inventory.—A taxpayer's deduction for charitable contributions of inventory generally is limited to the taxpayer's basis (typically cost) in the inventory or, if less, the fair market value of the inventory. However, for certain contributions of inventory, C corporations may claim an enhanced deduction equal to the lesser of: (1) basis plus one-half of the fair market value in excess of basis, or (2) two times basis. To be eligible for the enhanced deduction, the contributed property generally must be inventory of the taxpayer contributed to a charitable organization and the donee must: (1) use the property consistent with the donee's exempt purpose solely for the care of the ill, the needy, or infants; (2) not transfer the property in exchange for money, other property, or services; and (3) provide the taxpayer a written statement that the donee's use of the property will be consistent with such requirements. To use the enhanced deduction, the taxpayer must establish that the fair market value of the donated item exceeds basis.

The Katrina Emergency Tax Relief Act of 2005 expanded the enhanced deduction to apply to qualified contributions of food inventory made after August 27, 2005 and before January 1, 2006 by all taxpayers (not just C corporations) engaged in a trade or business. The Pension Protection Act of 2006 extended the enhanced charitable deduction for contributions of food inventory provided under the Katrina Emergency Tax Relief Act of 2005 to apply to contributions made after December 31, 2005 and before January 1, 2008. The donated food must meet certain quality and labeling standards, and, for taxpayers other than C corporations, the total deduction for donated food inventory may not exceed 10 percent of the taxpayer's net income from the related trade or business. The Administration proposes to permanently extend the enhanced charitable deduction for contributions of food inventory to apply to contributions made after December 31, 2007.

Permanently extend the deduction for corporate donations of computer equipment for educational purposes.—The charitable contribution deduction that may be claimed by corporations for donations of inventory property generally is limited to the lesser of fair market value or the corporation's basis in the property. However, corporations are provided enhanced deductions, not subject to this limitation, for contributions of computer technology and equipment for education purposes. The enhanced deduction is equal to the lesser of: (1) basis plus one-half of the item's fair market value in excess of basis, or (2) two times basis. To qualify for the enhanced deduction, equipment contributed must have been constructed or assembled by the taxpayer and be donated no later than three years after completion. This provision expired with respect to donations made after December 31, 2007. The Administration proposes to permanently extend this deduction, effective for distributions made in taxable years beginning after December 31, 2007.

Permanently extend increased limits on contributions of partial interests in real property for conservation purposes.—In general, a deduction is permitted for charitable contributions, subject to certain limitations that depend on the type of taxpayer, the property contributed, and the donee organization. Exceptions to these general rules are provided for certain types of contributions, including qualified conservation contributions. The special rules for qualified conservation contributions were enhanced under the Pension Protection Act of 2006, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005 and before January 1, 2008. These special rules: (1) increased the cap on deductions for qualified conservation contributions from 30 percent to 50 percent of the excess of the donor's contribution base over the amount of all other allowable charitable contributions; (2) increased the cap on deductions for qualified conservation contributions applicable to qualified ranchers and farmers to 100 percent of the excess of the donor's contribution base over the amount of all other allowable charitable contributions in the case of individuals and to 100 percent of the excess of taxable income over the amount of all other allowable charitable contributions in the case of corporations; and (3) increased the number of years qualified conservation contributions in excess of the 50- and 100-percent caps may be carried forward from five to 15 years. The Administration proposes to permanently extend these special rules, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2007.

Permanently extend basis adjustment to stock of S corporations contributing appreciated property.—Each shareholder of an S corporation must take into account his or her pro rata share of a charitable contribution by the S corporation in determining his or her income tax liability. For donations of property, this generally is the pro rata share of the property's fair market value. Under prior law, the shareholder's basis in the stock of the company was reduced by the amount of the charitable contribution that flowed through to the shareholder. Under the Pension Protection Act of 2006, effective for charitable contributions made by an S corporation in taxable years beginning after December 31, 2005 and before January 1, 2008, shareholders are allowed to adjust their basis in the stock of the company by their pro rata share of the adjusted basis of the contributed property instead of by their pro rata share of the market value of the contributed property. The Administration proposes to permanently extend this provision, effective for charitable contributions made by an S corporation in taxable years beginning after December 31, 2007.

Reform excise tax based on investment income of private foundations.—Under current law, private foundations that are exempt from Federal income tax are subject to a two-percent excise tax on their net investment income (one percent if certain requirements are met). The excise tax on private foundations that are not exempt from Federal income tax, such as certain charitable trusts, is equal to the excess of the sum of the excise tax that would have been imposed if the foundation were tax exempt and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. To encourage increased charitable activity and simplify the tax laws, the Administration proposes to replace the two rates of tax on the net investment income of private foundations that are exempt from Federal income tax with a single tax rate of one percent. The excise tax on private foundations not exempt from Federal income tax would be equal to the excess of the sum of the one-percent excise tax that would have been imposed if the foundation were tax exempt and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. The proposed change would be effective for taxable years beginning after December 31, 2007.

Strengthen Education

Permanently extend the above-the-line deduction for qualified out-of-pocket classroom expenses.—Under current law, teachers who itemize deductions (do not use the standard deduction) and incur unreimbursed, job-related expenses are allowed to deduct those expenses to the extent that, when combined with other miscellaneous itemized deductions, they exceeded two percent of AGI. Current law also allows certain teachers and other elementary and secondary school professionals to treat up to $250 in annual qualified out-of-pocket classroom expenses as a non-itemized deduction (deductible above-the-line). Unreimbursed expenditures for certain books, supplies, and equipment related to classroom instruction qualify for the above-the-line deduction. Expenses claimed as an above-the-line deduction may not be claimed as an itemized deduction. This additional deduction is effective for expenses incurred in taxable years beginning after December 31, 2001 and before January 1, 2008. The Administration proposes to permanently extend the above-the-line deduction to apply to qualified out-of-pocket expenditures incurred in taxable years beginning after December 31, 2007.

Allow the saver's credit for contributions to qualified tuition programs (section 529 of the Internal Revenue Code).—Under current law, taxpayers age 18 or older who are not dependents or full-time students may receive a nonrefundable credit (the saver's credit) on up to $2,000 of their compensation contributed to employer-sponsored qualified retirement plans and IRAs. The credit ranges between 10 and 50 percent of the amount contributed, depending on the taxpayer's filing status and AGI (adjusted for inflation). In determining the credit, qualified contributions are reduced by distributions from qualified plans and IRAs during the current tax year, the two preceding tax years, and the following year, up to the due date of the return, including extensions.

Under current law, taxpayers may contribute to a section 529 qualified tuition program (QTP) to save for higher education expenses of a designated beneficiary. Contributions to a QTP are not deductible from income for Federal tax purposes, but earnings on contributions accumulate tax-free. Taxpayers may exclude from gross income amounts distributed from a QTP and used for qualified higher education expenses, provided the distribution is not used for the same educational expenses for which another tax benefit is claimed. Nonqualified distributions are subject to an additional tax.

The Administration proposes to allow the saver's credit for qualified contributions to QTPs controlled by the taxpayer. AGI would be modified to include the excludable portion of the taxpayer's Social Security benefits in determining the applicable rate for the saver's credit. The credit would apply to an annual aggregate contribution of up to $2,000 (or earnings includible in gross income, if less) to the taxpayer's elective deferral plans, IRAs, and QTPs. For an individual who is married filing a joint return, the earnings limitation would be binding only if the combined includible compensation of the spouses was less than $4,000. Qualified contributions would be reduced by distributions from elective deferral plans, IRAs, and QTPs during the current tax year, the two preceding tax years, and the following tax year up to the due date of the return, including extensions. The credit would be effective for years beginning after December 31, 2008.

Strengthen Housing

Expand tax-exempt qualified mortgage bond program to assist subprime borrowers.—Under current law, State and local governments may issue tax-exempt private activity bonds, called "qualified mortgage bonds," to provide low-interest rate new mortgage loans (as contrasted with refinancing loans) to qualified first-time homebuyers for the purchase, improvement, or rehabilitation of owner-occupied single-family housing. Several restrictions, including purchase price and mortgagor income limitations, apply. In addition, such bonds are subject to the annual private activity bond volume cap and various general eligibility requirements for tax-exempt private activity bonds. The Administration proposes to expand the mortgage bond program temporarily to allow State and local governments to use such bonds to refinance existing loans to eligible subprime borrowers during the three years, 2008 through 2010. The proposal would increase the private activity bond volume cap by a total amount of $15 billion to be dedicated to use for subprime refinancings during the three years from 2008 through 2010.

Protect the Environment

Permanently extend expensing of brownfields remediation costs.—Taxpayers may elect, with respect to expenditures paid or incurred before January 1, 2008, to treat certain environmental remediation expenditures that would otherwise be chargeable to a capital account as deductible in the year paid or incurred. The Administration proposes to extend this provision permanently, making it available for expenditures paid or incurred after December 31, 2007, and facilitating its use by businesses to undertake projects that may be uncertain in overall duration.

Eliminate the volume cap for private activity bonds for water infrastructure.—Bonds are classified as private activity bonds if they meet a private business use test and a private payments test. Private activity bonds may be issued on a tax-exempt basis only if they meet specified requirements, including targeting requirements that limit such bond financing to specifically defined facilities and programs. For example, qualified private activity bonds can be used to finance facilities for the furnishing of water and for sewer facilities. Qualified private activity bonds are subject to the same general rules applicable to governmental bonds. Most qualified private activity bonds are also subject to a number of additional rules and limitations, in particular an annual State volume cap limitation.

The Administration proposes to remove from the annual State volume cap limitation qualified private activity bonds issued to finance water and sewage facilities. These bonds are intended to complement local efforts to move towards full cost pricing for wastewater and drinking water services, helping municipalities become self-financing and minimizing the need for future Federal expenditures. The volume cap would be removed for obligations issued after December 31, 2008.

Restructure Assistance to New York City for Continued Recovery from the Attacks of September 11th

Provide tax incentives for transportation infrastructure.—The Administration proposes to restructure the tax benefits for New York recovery that were enacted in 2002. Some of the tax benefits that were provided to New York following the attacks of September 11, 2001, likely will not be usable in the form in which they were originally provided. As such, the Administration proposed in the Mid-Session Review of the 2005 Budget to sunset certain existing New York Liberty Zone tax benefits and in their place provide tax credits to New York State and New York City for expenditures incurred in building or improving transportation infrastructure in or connecting with the New York Liberty Zone. The tax credit would be available as of the date of enactment, subject to an annual limit of $200 million ($2 billion in total over 10 years), evenly divided between the State and the City. Any unused credit limit in a given year would be added to the $200 million allowable in the following year, including years beyond the 10-year period of the credit. Similarly, expenditures that could not be credited in a given year because of the credit limit would be carried forward and used against the next year's limitation. The credit would be allowed against any payments (e.g., income tax withholding) made by the City and State under any provision of the Internal Revenue Code, other than Social Security and Medicare payroll taxes and excise taxes. The Secretary of the Treasury may prescribe such rules as are necessary to ensure that the expenditures are made for the intended purpose. The Administration also proposes to terminate the additional first-year depreciation deduction for certain real property, which was provided to eligible property within the New York Liberty Zone under the 2002 economic stimulus act.

SIMPLIFY THE TAX LAWS FOR FAMILIES

Clarify uniform definition of a child.—The 2004 tax relief act created a uniform definition of a child, allowing, in many circumstances, a taxpayer to claim the same child for five different child-related tax benefits. Under the new rules, a qualifying child must meet relationship, residency, and age tests. While the new rules simplify the determination of eligibility for many child-related tax benefits, the elimination of certain complicated factual tests to determine if siblings and certain other family members are eligible to claim a qualifying child may have some unintended consequences. The new rules effectively deny the EITC to some young taxpayers who are the sole guardians of their younger siblings. Yet some taxpayers are able to avoid income limitations on child-related tax benefits by allowing other family members, who have lower incomes, to claim the taxpayers' sons or daughters as qualifying children. The 2004 tax relief act had other unintended consequences, which made some of the eligibility rules less uniform. For example, it allowed dependent filers to claim the child tax credit, even though they are generally ineligible for most other child-related tax benefits. It also allowed taxpayers to claim the child tax credit on behalf of a married child who files a joint return with his or her spouse, even though the taxpayer generally cannot claim other benefits for the married child. These exceptions create confusion and add complexity to the tax code.

To ensure that deserving taxpayers receive child-related tax benefits, the Administration proposes to clarify the uniform definition of a child. First, the definition of a qualifying child would be further simplified. A taxpayer would not be a qualifying child of another individual if the taxpayer is older than that individual. However, an individual could be a qualifying child of a younger sibling if the individual is permanently and totally disabled. Also, under the proposal, an individual who is married and filing jointly (for any reason other than to obtain a refund of overwithheld taxes) would not be considered a qualifying child for the child-related tax benefits, including the child tax credit. Second, the proposal clarifies when a taxpayer is eligible to claim child-related tax benefits. If a parent resides with his or her child for over half the year, the parent would be the only individual eligible to claim the child as a qualifying child. The parent could waive the child-related tax benefits to another member of the household who has higher AGI and is otherwise eligible for the tax benefits. In addition, dependent filers would not be allowed to claim qualifying children. The proposal is effective for taxable years beginning after December 31, 2008.

Simplify EITC eligibility requirement regarding filing status, presence of children, and work and immigrant status.—To qualify for the EITC, taxpayers must satisfy requirements regarding filing status, the presence of children in their households, and their work and immigration status in the United States. These rules are confusing, require significant record-keeping, and are costly to administer. Under the proposal, married taxpayers who reside with children could claim the EITC without satisfying a complicated household maintenance test if they live apart from their spouse for the last six months of the year. In addition, certain taxpayers who live with children but do not qualify for the larger child-related EITC could claim the smaller EITC for very low-income childless workers. The simplification of the filing status and residency requirements would be effective for taxable years beginning after December 31, 2008. Effective January 1, 2009, the proposal would also improve the administration of the EITC with respect to eligibility requirements for undocumented workers.

Reduce computational complexity of refundable child tax credit.—Taxpayers with earned income in excess of $12,050 may qualify for a refundable (or "additional") child tax credit even if they do not have any income tax liability. Over 70 percent of additional child tax credit claimants also claim the EITC. However, the two credits have a different definition of earned income and different U.S. residency requirements. In addition, some taxpayers have to perform multiple computations to determine the amount of the additional child tax credit they can claim. First, they must compute the additional child tax credit using a formula based on earned income. Then, if they have three or more children, they may recalculate the credit using a formula based on social security taxes and claim the higher of the two amounts.

Under the proposal, the additional child tax credit would use the same definition of earned income as is used for the EITC. Taxpayers (other than members of the Armed Forces stationed overseas) would be required to reside with a child in the United States to claim the additional child tax credit (as they are currently required to do for the EITC). Taxpayers with three or more children would do only one computation based on earned income to determine the credit amount. The proposal would be effective for taxable years beginning after December 31, 2008.

IMPROVE TAX COMPLIANCE

The Federal tax system is based on voluntary compliance with the tax laws. Under this system, taxpayers report and pay their taxes voluntarily with minimal interaction with the IRS. While the vast majority of American taxpayers pay their taxes timely and accurately, there remains in aggregate a difference between what taxpayers should pay and what they actually pay on a timely basis. In 2001, the overall compliance rate was 86 percent, after including late payments and recoveries from IRS enforcement activities. While this rate of compliance is high, a large amount of the tax that should be paid is not, resulting in the so-called "tax gap".[1]

In September 2006, the Treasury Department released a comprehensive strategy to improve tax compliance.[2] The strategy builds upon the demonstrated experience and current efforts of the Treasury Department and IRS to improve compliance.

Four key principles guided development of the strategy:

- Unintentional taxpayer errors and intentional taxpayer evasion should both be addressed.
- Sources of non-compliance should be targeted with specificity.
- Enforcement activities should be combined with a commitment to taxpayer service.
- Tax policy and compliance proposals should be sensitive to taxpayer rights and maintain an appropriate balance between enforcement activity and imposition of taxpayer burden.

These principles point to the need for a comprehensive, integrated, multi-year strategy to improve tax compliance. Components of this strategy must include: (1) legislative proposals to reduce opportunities for evasion; (2) a multi-year commitment to compliance research; (3) continued improvements in information technology; (4) improvements in IRS compliance activities; (5) enhancements of taxpayer service; (6) simplification of the tax law; and (7) coordination between the government and its partners and stakeholders.

The IRS has taken a number of steps to improve compliance.[3] To enhance the IRS's efforts, the Administration's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. The Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Expand information reporting.—Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would: (1) require information reporting on payments to corporations; (2) require basis reporting on security sales; (3) require information reporting on broker and merchant payment card reimbursements; (4) require a certified tax identification number (TIN) from non-employee service providers; (5) require increased information reporting for certain gov-

[1] See Chapter 13, Stewardship, in this volume.

[2] Comprehensive Strategy for Reducing the Tax Gap, U.S. Treasury Department, September 26, 2006.

[3] See Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance, IRS, August 2, 2007.

ernment payments for property and services; (6) increase information return penalties; and (7) improve the foreign trust reporting penalty.

Improve compliance by businesses.—Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would: (1) require electronic filing by certain large businesses; and (2) implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.

Strengthen tax administration.—The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would: (1) expand IRS access to information in the National Directory of New Hires database; (2) permit the IRS to disclose to prison officials return information about tax violations; (3) make repeated failure to file a tax return a felony; (4) facilitate information sharing with local jurisdictions for purposes of tax compliance; (5) extend the statutory period for assessing additional Federal tax liability on State/local adjustments or amended returns; and (6) improve the investigative disclosure statute.

Expand penalties.—Penalties play an important role in discouraging intentional non-compliance. The Administration proposes to impose a penalty on failure to comply with electronic filing requirements.

IMPROVE TAX ADMINISTRATION AND OTHER MISCELLANEOUS PROPOSALS

Implement IRS administrative reforms.—The Administration has three proposals relating to administrative reforms. The first proposal modifies employee infractions subject to mandatory termination and permits a broader range of available penalties. It strengthens taxpayer privacy while reducing employee anxiety resulting from unduly harsh discipline or unfounded allegations. The second proposal allows the IRS to terminate installment agreements when taxpayers fail to make timely tax deposits and file tax returns on current liabilities. The third proposal eliminates the requirement that the IRS Chief Counsel provide an opinion for any accepted offer-in-compromise of unpaid tax (including interest and penalties) equal to or exceeding $50,000. This proposal requires that the Secretary of the Treasury establish standards to determine when an opinion is appropriate.

Extend IRS authority to fund undercover operations.—The IRS is permitted to fund certain necessary and reasonable expenses of undercover operations, placing it on equal footing with other Federal law enforcement agencies. These undercover operations include international and domestic money laundering and narcotics operations. The Administration proposes to extend this funding authority, which expired on December 31, 2007, through December 31, 2012.

Increase transparency of the cost of employer-provided health insurance.—Employers providing health coverage to employees and their families would be required to report on the Form W-2 provided to employees and the IRS the value of the health coverage provided to the employee. For this purpose, employers would generally use the same value for all similarly situated employees receiving the same category (such as self-only or family) of coverage. It is expected that the amount reported as the value of coverage would be determined using the same methodology as the applicable premiums for purposes of COBRA continuation coverage under section 4980B. This provision would be effective for years beginning after December 31, 2008.

Equalize penalty standards between preparers and taxpayers.—The increase in applicable standards in order for a tax return preparer to take an undisclosed position on a return and avoid penalties may result in conflicts of interest between tax return preparers and their taxpayer clients. The proposal would make the standard applicable to preparers in order to take an undisclosed position on a return generally consistent with the taxpayer standard. The proposal would maintain the existing law requirement that the preparer have a reasonable belief that the position would more likely than not be sustained on the merits with respect to certain reportable transactions with a significant purpose of tax avoidance. The proposal would make the standard applicable to tax return preparers for disclosed positions (including positions described in section 6662(d)(2)(C)) reasonable basis. No penalty would be asserted against a tax return preparer if the preparer has reasonable cause and good faith.

Eliminate the special exclusion from unrelated business taxable income for gain or loss on the sale or exchange of certain brownfields.—In general, an organization that is otherwise exempt from Federal income tax is taxed on income from any trade or business regularly carried on by the organization that is not substantially related to the organization's exempt purposes. In addition, income derived from property that is debt-financed generally is subject to unrelated business income tax. The 2004 American Jobs Creation Act created a special exclusion from unrelated business taxable income of gain or loss from the sale or exchange of certain qualifying brownfield properties. The exclusion applies regardless of whether the property is debt-financed. The new provision adds considerable complexity to the Internal Revenue Code and, because there is no limit on the amount of tax-free gain, could exempt from tax real estate development considerably beyond mere environmental remediation. The proposal would eliminate this special exclusion effective for taxable years beginning after December 31, 2008.

Limit related party interest deductions.—Current law (section 163(j) of the Internal Revenue Code) denies U.S. tax deductions for certain interest expenses paid to a related party where: (1) the corporation's debt-to-equity ratio exceeds 1.5 to 1, and (2) net interest expenses exceed 50 percent of the corporation's adjusted taxable income (computed by adding back net interest expense, depreciation, amortization, depletion, and any net operating loss deduction). If these thresholds are exceeded, no deduction is allowed for interest in excess of the 50-percent limit that is paid to a related party or paid to an unrelated party but guaranteed by a related party, and that is not subject to U.S. tax. Any interest that is disallowed in a given year is carried forward indefinitely and may be deductible in a subsequent taxable year. A three-year carryforward for any excess limitation (the amount by which interest expense for a given year falls short of the 50-percent limit) is also allowed. Consistent with the findings of the Treasury Department's recent study of earnings stripping, section 163(j) would be revised to tighten the limitation on the deductibility of interest paid by "expatriated entities" to related persons. The current law 1.5 to 1 debt-to-equity safe harbor would be eliminated. The adjusted taxable income threshold for the limitation would be reduced from 50 percent to 25 percent of adjusted taxable income with respect to disqualified interest other than interest paid to unrelated parties on debt that is subject to a related-party guarantee ("guaranteed debt"). Interest on guaranteed debt generally would be subject to the current-law 50 percent of adjusted taxable income threshold. The indefinite carryforward for disallowed interest under the adjusted taxable income limitation of current law would be limited to ten years. The three-year carryforward of excess limitation would be eliminated.

Repeal excise tax on local telephone service.—A three-percent Federal excise tax is imposed on amounts paid for local telephone service, toll telephone service (essentially long distance telephone service), and teletypewriter exchange service. In accordance with multiple court decisions that concluded that the tax did not apply to long distance services sold at flat per-minute rates for interstate, intrastate, and international calls, the IRS is no longer collecting tax on telephone service other than local-only telephone service. The Administration proposes to repeal all taxes on communication services, including the tax on local telephone service, effective for amounts paid pursuant to bills first rendered more than 90 days after enactment of legislation repealing the tax.

Modify financing of the Airport and Airway Trust Fund.—The Administration transmitted a reauthorization proposal in February 2007 to reform the Federal Aviation Administration's (FAA's) financing system by adopting new cost-based user fees. The FAA's current financing system, largely based on taxes on the price of airline tickets, does not have a direct relationship between the taxes paid by users and the air traffic control services provided by the FAA. The Administration will resubmit the proposal for the FAA to collect user fees from commercial aviation operators for air traffic control services starting in fiscal year 2010. For non-commercial users, FAA would continue to recover its costs for air traffic control services via a fuel tax. Both commercial and non-commercial users would continue to pay fuel taxes to support the FAA's Airport Improvement Program.

Improve financing of the Inland Waterways Trust Fund.—Commercial barges that use the inland waterways now pay an excise tax of 20 cents per gallon on diesel fuel, which is deposited in the Inland Waterways Trust Fund. The tax does not raise enough revenue to cover the required 50 percent non-Federal share of the costs that the Army Corps of Engineers is spending to construct, replace, expand, and rehabilitate the locks and dams and other features that make barge transportation possible on the inland waterways. To address this imbalance between receipts and expenditures, the Administration proposes to phase out the current excise tax for inland waterways users and replace it with a more efficient user fee tied to the level of spending for inland waterways construction, replacement, expansion, and rehabilitation work.

Anticipated receipt of donations to the National Park Service through the National Park Centennial Challenge Fund.—The President's National Park Centennial Challenge encourages the public to increase donations to national parks by proposing to match contributions for signature projects and programs on a dollar-for-dollar basis up to $100 million a year for ten years. As part of a broader initiative to prepare for the National Park Service Centennial in 2016, this Challenge continues the National Park Service's legacy of leveraging philanthropic investment for the benefit of America's national parks.

Increase fees for Migratory Bird Hunting and Conservation Stamps.—Federal Migratory Bird Hunting and Conservation Stamps, commonly known as "Duck Stamps," were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps ($15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas. The land and water interests located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 16 years. The Administration proposes to increase these fees to $25 per stamp per year, effective beginning in 2009.

Transition from the non-foreign cost-of-living adjustment (COLA) to locality pay for employees in non-foreign areas.—Federal employees working outside the continental United States in Alaska, Hawaii or the U.S. territories presently receive a COLA, which is an untaxed annual pay adjustment that is not creditable for retirement. By transitioning to locality pay, Federal employees in the non-foreign areas will contribute a larger percentage of their pay into the Federal retirement fund as locality pay is retirement-creditable. The proposal would establish a yearly reduction in the COLA, offset by a yearly increase in applicable locality pay, with the intent of eliminating the COLA over seven years.

IMPROVE UNEMPLOYMENT INSURANCE

Strengthen the financial integrity of the unemployment insurance system by reducing improper benefit payments and tax avoidance.—The Administration has a multi-part proposal to strengthen the financial integrity of the unemployment insurance (UI) system and to encourage the early reemployment of UI beneficiaries. The Administration's proposal will boost States' ability to recover benefit overpayments and deter tax evasion schemes by permitting them to use a portion of recovered funds to expand enforcement efforts in these areas. In addition, the proposal would require States to impose a monetary penalty on UI benefit fraud, which would be used to reduce overpayments; make it easier for States to use private collection agencies in the recovery of hard-to-collect overpayments and delinquent employer taxes; require States to charge employers found to be at fault when their actions lead to overpayments; permit collection of delinquent UI overpayments and employer taxes through garnishment of Federal tax refunds; and improve the accuracy of hiring data in the National Directory of New Hires, which would reduce benefit overpayments. The Administration's proposal would also permit States to request waivers of certain Federal requirements in order to carry out demonstration projects that improve the administration of the UI program, such as speeding reemployment of UI beneficiaries. These efforts to strengthen the financial integrity of the UI system and encourage early reemployment of UI beneficiaries will keep State UI taxes down and improve the solvency of the State trust funds.

Extend unemployment insurance surtax.—The Federal unemployment tax on employers will drop from 0.8 percent to 0.6 percent with respect to wages paid after December 31, 2008. The 0.8 percent rate is proposed to be extended for one year, through December 31, 2009.

MODIFY ENERGY PROVISIONS

Repeal reduced recovery period for natural gas distribution lines.—The Energy Policy Act of 2005 reduced the recovery period for new natural gas distribution lines that are placed in service before January 1, 2011, from 20 years to 15 years. The Administration proposes to repeal this provision for natural gas distribution lines placed in service after December 31, 2008.

Modify amortization for certain geological and geophysical expenditures.—Geological and geophysical expenditures (G&G costs) are costs incurred by a taxpayer for the purpose of obtaining and accumulating data that will serve as the basis for the acquisition and retention of mineral properties by taxpayers exploring for minerals. Under the Energy Policy Act of 2005, G&G costs paid or incurred in taxable years beginning after August 8, 2005, in connection with oil and gas exploration in the United States, could be amortized over two years. The Tax Increase Prevention and Reconciliation Act of 2006 increased the amortization period to five years for G&G costs paid or incurred by certain major integrated oil companies after May 17, 2006. This five-year amortization rule applied only to integrated oil companies that had an average daily worldwide production of crude oil of at least 500,000 barrels for the taxable year, had gross receipts in excess of $1 billion in the last taxable year ending during calendar year 2005, and were either a crude oil refiner or related to a crude oil refiner. The Energy Independence and Security Act of 2007 increased the amortization period for such integrated oil companies to seven years for costs paid or incurred after December 19, 2007. The Administration proposes to increase the amortization period to seven years for all companies, effective for amounts paid or incurred in taxable years beginning after December 31, 2008.

PROMOTE TRADE

Implement free trade agreements.—Free trade agreement negotiations with Columbia, Panama and Korea were completed, with the expectation that implementation could begin as early as 2009. A free trade agreement is expected to be completed with Malaysia, with implementation to begin in 2010. These agreements will continue the Administration's effort to use free trade agreements to benefit U.S. consumers and producers as well as strengthen the economies of America's partner countries.

Establish Reconstruction Opportunity Zones (ROZs) in Pakistan and Afghanistan.—In March 2006, the President announced his intention to establish ROZs in Afghanistan and the border regions of Pakistan. ROZs are a critical part of the Administration's broader counterterrorism strategy in these areas, designed to connect isolated regions to the global economy and create vital employment opportunities in territories prone to extremism. The creation of ROZs will encourage investment and economic development in these areas by granting duty-free entry to the United States for certain goods produced in designated territories. By stimulating economic activity in remote and underdeveloped regions, ROZs can also serve as a powerful catalyst for peace, prosperity, stability, growth and good governance. The Administration will work closely with Congress and private sector stakeholders to implement this important initiative.

Extend Generalized System of Preferences (GSP).—Under GSP, duty-free access is provided to approximately 3,400 products from eligible beneficiary developing countries that meet certain worker rights, intellectual property protection, and other statutory criteria. The Administration proposes to extend this program, which is scheduled to expire after December 31, 2008, through December 31, 2013.

Extend Andean Trade Preference Act (ATPA).—The ATPA was designed to provide economic alternatives for Bolivia, Columbia, Ecuador, and Peru in their fight against narcotics production and trafficking. The Administration proposes to extend the ATPA, which is scheduled to expire on February 29, 2008, through December 31, 2008.

Extend Caribbean Basin Initiative (CBI).—The trade programs known collectively as the CBI remain a vital element in the United States' economic relations with its neighbors in Central America and the Caribbean. The CBI, which is intended to facilitate the economic development and export diversification of the Caribbean Basin economies, currently provides 19 beneficiary countries with duty-free access to the U.S. market for most goods. The Administration proposes to extend the CBI, which is scheduled to expire on September 30, 2008, through December 31, 2011.

EXTEND EXPIRING PROVISIONS

Extend minimum tax relief for individuals.—A temporary provision of current law increased the alternative minimum tax (AMT) exemption amounts to $44,350 for single taxpayers, $66,250 for married taxpayers filing a joint return and surviving spouses, and $33,125 for married taxpayers filing a separate return and estates and trusts. Effective for taxable years beginning after December 31, 2007, the AMT exemption amounts decline to $33,750 for single taxpayers, $45,000 for married taxpayers filing a joint return and surviving spouses, and $22,500 for married taxpayers filing a separate return and estates and trusts. A temporary provision of current law permits nonrefundable personal tax credits to offset both the regular tax and the AMT for taxable years beginning before January 1, 2008.

The Administration proposes to increase the AMT exemption amounts to $46,250 for single taxpayers, $70,050 for married taxpayers filing a joint return, and $35,025 for married taxpayers filing a separate return and estates and trusts through taxable year 2008 to prevent the number of AMT taxpayers from increasing. Non-refundable personal tax credits also would be allowed to offset both the regular tax and the AMT through taxable year 2008.

Permanently extend the research and experimentation (R&E) tax credit.—The Administration proposes to permanently extend the tax credits for research and experimentation expenditures, which expired with respect to expenditures incurred after December 31, 2007.

Extend the first-time homebuyer credit for the District of Columbia (DC).—A one-time nonrefundable $5,000 credit is available to purchasers of a principal residence in the District of Columbia who have not owned a residence in the District during the year preceding the purchase. The credit phases out for taxpayers with modified adjusted gross income between $70,000 and $90,000 ($110,000 and $130,000 for joint returns). The credit does not apply to purchases after December 31, 2007. The Administration proposes to extend the credit for two years, making the credit available with respect to purchases after December 31, 2007 and before January 1, 2010.

Extend deferral of gains from sales of electric transmission property.—Generally, the gain on the sale of business assets is subject to current income tax unless a special rule provides for nonrecognition or deferral of the gain. One such special rule applies to qualifying electric transmission transactions. Under this rule, a taxpayer may elect to recognize the gain from a qualifying electric transmission transaction ratably over the eight-year period beginning with the year of the transaction. Deferral is allowed only with respect to proceeds that are used to purchase other gas or electric utility property during the four-year period beginning on the date of the transaction (the reinvestment period). A sale or other disposition of property is a qualifying electric transmission transaction if: (1) the property is used in the trade or business of providing electric transmission services or is an ownership interest in a entity whose principal trade or business is providing electric transmission services, and (2) the sale or other disposition is to an independent transmission company and occurs before January 1, 2008. In general, whether the purchaser qualifies as an independent transmission company depends on determinations by the Federal Energy Regulatory Commission (FERC) or, in the case of facilities subject to the jurisdiction of the Public Utility Commission of Texas, by that Commission. The special rule allowing the deferral of tax on the gain from the sale or disposition of electric transmission property would be extended for one year, allowing taxpayers to elect deferral with respect to sales or dispositions that occur before January 1, 2009.

Extend the New Markets tax credit.—The New Markets tax credit is provided for qualified equity investments made to acquire stock in a corporation or a capital interest in a partnership that is a qualified community development entity (CDE). A credit of five percent is provided to the investor for the first three years of investment. The credit increases to six percent for the next four years. The maximum amount of annual qualifying equity investment is capped at $2.0 billion for calendar years 2004 and 2005, and $3.5 billion for calendar years 2006 through 2008. The Administration proposes to extend the New Markets tax credit through 2009 and to permit up to $3.5 billion in qualified equity investment for that calendar year.

Extend Subpart F "active financing" and "look-through" exceptions.—Under Subpart F rules, certain U.S. shareholders of a controlled foreign corporation (CFC) are subject to U.S. tax currently on certain income earned by the CFC, whether or not such income is distributed. The income subject to current inclusion under Subpart F includes, among other things, "foreign personal holding company income" and insurance income. Foreign personal holding company income generally includes dividends; interest; royalties; rents; annuities; net gains from the sale of certain property, including securities, commodities and foreign currency; and income from notional principal contracts and securities lending activities. Under current law, for taxable years beginning before January 1, 2009, exceptions from Subpart F are provided for: (1) certain income derived in the active conduct of a banking, financing, insurance, or similar business (active financing), and (2) dividends, interest, rents and royalties received by one CFC from a related CFC to the extent attributable or properly allocable to income of the related CFC that is neither Subpart F income nor income treated as effectively connected with the conduct of a trade or business in the United States (look-through). The Administration proposes to extend both the Subpart F active financing and look-through exceptions to apply to taxable years beginning before January 1, 2010.

Extend the exception for retirement plan distributions provided individuals called to active duty for at least 179 days.—Under current law, a taxpayer who receives a distribution from a qualified retirement plan prior to age 59 1/2, death or disability is subject to a 10-percent early withdrawal tax unless a specific exception to the tax applies. One of the exceptions to the tax applies to qualified reservist distributions. An individual who receives a qualified reservist distribution may, at any time during a two-year period beginning on the day after the end of the active duty period, make contributions to an IRA in an amount not exceeding the amount of the qualified reservist distribution. Such contributions are not subject to the dollar limitations otherwise applicable to contributions to IRAs. The exception to the tax for qualified reservist distributions applies to individuals ordered or called to active duty after September 11, 2001 and before December 31, 2007. The Administration proposes to extend the exception to individuals ordered or called to active duty before December 31, 2008.

Extend provisions permitting disclosure of tax return information relating to terrorist activity.—The disclosure of tax return information relating to terrorism is permitted in two situations. The first is when an executive of a Federal law enforcement or intelligence agency has reason to believe that the return information is relevant to a terrorist incident, threat or activity and submits a written request. The second is when the IRS wishes to apprise a Federal law enforcement agency of a terrorist incident, threat or activity. The Administration proposes to extend this disclosure authority, which expired on December 31, 2007, through December 31, 2008.

Extend authority permitting disclosure of tax return information to the Department of Veterans Affairs (VA).—Current law permits disclosure of certain tax information to the VA. This information assists the VA in determining eligibility and establishing correct benefit amounts for certain of its needs-based programs. The Administration proposes to extend and update this disclosure authority, which is scheduled to expire after September 30, 2008, through September 30, 2009.

Extend excise tax on coal at current rates.—Excise taxes levied on coal mined and sold for use in the United States are deposited in the Black Lung Disability Trust Fund. Amounts deposited in the Fund are used to cover the cost of program administration and to pay compensation, medical, and survivor benefits to eligible miners and their survivors, when mine employment terminated prior to 1970 or when no mine operator can be assigned liability. Current tax rates on coal sold by a producer are $1.10 per ton of coal from underground mines and $0.55 per ton of coal from surface mines; however, these rates may not exceed 4.4 percent of the price at which the coal is sold. Effective for coal sold after December 31, 2013, the tax rates on coal from underground mines and surface mines will decline to $0.50 per ton and $0.25 per ton, respectively, and will be capped at 2 percent of the price at which the coal is sold. The Administration proposes to repeal the reduction in these tax rates effective for sales after December 31, 2013, and keep current rates in effect until the Black Lung Disability Trust Fund debt is repaid.

Table 17–3. EFFECT OF PROPOSALS ON RECEIPTS

(In millions of dollars)

	2008	2009	2010	2011	2012	2013	2009–13	2009–18
Economic growth package	–125,000	–20,000	10,000	8,000	6,000	4,000	8,000	8,000
Make Permanent Certain Tax Relief Enacted in 2001 and 2003 (assumed in the baseline):								
Dividends tax rate structure	....	425	–5,554	–24,361	–4,616	–13,873	–47,979	–196,413
Capital gains tax rate structure	....	....	–4,094	–17,416	–3,683	–8,461	–33,654	–104,804
Expensing for small businesses	....	....	....	–4,160	–5,810	–4,288	–14,258	–26,537
Marginal individual income tax rate reductions	....	....	....	–75,160	–119,341	–123,794	–318,295	–1,007,667
Child tax credit [1]	....	....	....	–5,062	–20,357	–20,777	–46,196	–155,731
Marriage penalty relief [1]	....	....	....	–5,117	–7,715	–7,001	–19,833	–46,939
Education incentives	....	....	....	–738	–1,339	–1,413	–3,490	–11,540
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes	–422	–2,502	–3,453	–26,409	–57,639	–59,670	–149,673	–521,982
Other incentives for families and children	....	....	6	–364	–678	–678	–1,714	–5,157
Total, make permanent certain tax relief enacted in 2001 and 2003	–422	–2,077	–13,095	–158,787	–221,178	–239,955	–635,092	–2,076,770
Tax Incentives:								
Simplify and encourage saving:								
Expand tax-free savings opportunities	....	1,527	3,545	3,023	1,075	–1,314	7,856	–592
Consolidate employer-based savings accounts	....	–80	–120	–132	–141	–150	–623	–1,484
Total, simplify and encourage saving	....	1,447	3,425	2,891	934	–1,464	7,233	–2,076
Encourage entrepreneurship and investment:								
Increase expensing for small businesses	....	–1,086	–1,495	–1,083	–851	–688	–5,203	–7,578
Invest in health care:								
Provide a new standard deduction for health insurance ($15,000 for family coverage and $7,500 for individual coverage) [1]	....	–23,002	–28,412	–22,680	–15,360	–4,692	–94,146	41,051
Expand and make health savings accounts (HSAs) more flexible	....	–420	–779	–931	–1,031	–1,123	–4,284	–11,511
Allow the orphan drug tax credit for certain pre-designation expenses [2]	....	....	....	....	....	....	....	....
Total, invest in health care	....	–23,422	–29,191	–23,611	–16,391	–5,815	–98,430	29,540
Provide incentives for charitable giving:								
Permanently extend tax-free withdrawals from IRAs for charitable contributions	....	–300	–551	–434	–284	–211	–1,780	–3,321
Permanently extend the enhanced charitable deduction for contributions of food inventory	–44	–96	–106	–116	–127	–140	–585	–1,524
Permanently extend the deduction for corporate donations of computer equipment for educational purposes	–50	–118	–147	–154	–162	–170	–751	–1,838
Permanently extend increased limits on contributions of partial interests in real property for conservation purposes	–48	–35	–22	–18	–21	–22	–118	–245
Permanently extend basis adjustment to stock of S corporations contributing appreciated property	–3	–15	–21	–25	–28	–32	–121	–354
Reform excise tax based on investment income of private foundations	–105	–152	–152	–153	–154	–155	–766	–1,578
Total, provide incentives for charitable giving	–250	–716	–999	–900	–776	–730	–4,121	–8,860
Strengthen education:								
Permanently extend the above-the-line deduction for qualified out-of-pocket classroom expenses	–18	–180	–183	–185	–188	–191	–927	–1,927
Allow the saver's credit for contributions to qualified tuition programs	....	–88	–183	–198	–213	–227	–909	–2,259
Total, strengthen education	–18	–268	–366	–383	–401	–418	–1,836	–4,186
Strengthen housing:								
Expand tax-exempt qualified mortgage bond program to assist subprime borrowers	–27	–116	–230	–305	–329	–331	–1,311	–2,687
Protect the environment:								
Permanently extend expensing of brownfields remediation costs	–180	–501	–356	–343	–327	–284	–1,811	–2,870
Eliminate the volume cap for private activity bonds for water infrastructure	....	....	–3	–6	–10	–15	–34	–214
Total, protect the environment	–180	–501	–359	–349	–337	–299	–1,845	–3,084
Restructure assistance to New York City for continued recovery from the attacks of September 11th								
Provide tax incentives for transportation infrastructure	....	–200	–200	–200	–200	–200	–1,000	–2,000

Table 17–3. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	2008	2009	2010	2011	2012	2013	2009–13	2009–18
Total, tax incentives	–475	–24,862	–29,415	–23,940	–18,351	–9,945	–106,513	–931
Simplify the Tax Laws for Families:								
Clarify uniform definition of a child [1]	....	6	30	38	17	23	114	275
Simplify EITC eligibility requirement regarding filing status, presence of children, and work and immigrant status [1]	....	35	–28	–26	–24	–23	–66	–181
Reduce computational complexity of refundable child tax credit [1]	....	....	....	....	....	....	....	....
Total, simplify the tax laws for families	....	41	2	12	–7	....	48	94
Improve Tax Compliance: [3]								
Expand information reporting	....	302	1,333	2,227	2,960	3,653	10,475	35,756
Improve compliance by businesses	....	3	5	5	5	6	24	57
Strengthen tax administration	....	....	....	3	6	8	17	72
Expand penalties	....	....	....	....	....	1	1	6
Total, improve tax compliance	....	305	1,338	2,235	2,971	3,668	10,517	35,891
Improve Tax Administration and Other Miscellaneous Proposals:								
Implement IRS administrative reforms and extend IRS authority to fund undercover operations [2]	....	....	....	....	....	....	....	....
Increase transparancy of the cost of employer-provided health insurance [2]	....	....	....	....	....	....	....	....
Equalize penalty standards between preparers and taxpayers	....	....	–1	–2	–2	–2	–7	–17
Eliminate the special exclusion from unrelated business taxable income for gain or loss on the sale or exchange of certain brownfields	....	2	13	16	13	11	55	66
Limit related party interest deductions	....	64	109	115	120	126	534	1,267
Repeal excise tax on local telephone service [4]	....	–248	–170	–118	–83	–79	–698	–1,076
Modify financing of the Airport and Airway Trust Fund [4]	....	....	–6,768	–7,106	–7,526	–7,909	–29,309	–75,594
Improve financing of the Inland Waterways Trust Fund [4]	....	109	119	127	159	126	640	1,015
Anticipated receipt of donations to the National Park Service through the National Park Centennial Challenge Fund	....	100	100	100	100	100	500	1,000
Increase fees for Migratory Bird Hunting and Conservation Stamps	....	14	14	14	14	14	70	140
Transition from the non-foreign cost-of-living adjustment (COLA) to locality pay for employees in non-foreign areas	....	1	2	3	4	5	15	50
Total, improve tax administration and other miscellaneous proposals [4]	....	42	–6,582	–6,851	–7,201	–7,608	–28,200	–73,149
Improve Unemployment Insurance:								
Strengthen the financial integrity of the unemployment insurance system by reducing improper benefit payments and tax avoidance [4]	....	....	35	34	–107	–314	–352	–1,581
Extend unemployment insurance surtax [4]	....	1,079	465	....	....	....	1,544	590
Total, improve unemployment insurance [4]	....	1,079	500	34	–107	–314	1,192	–991
Modify Energy Provisions:								
Repeal reduced recovery period for natural gas distribution lines	....	20	73	114	110	89	406	580
Modify amortization for certain geological and geophysical expenditures	16	61	91	76	43	19	290	353
Total, modify energy provisions	16	81	164	190	153	108	696	933
Promote Trade:								
Implement free trade agreements and modify other trade-related provisions [4]	–86	–1,653	–2,319	–2,674	–2,408	–2,426	–11,480	–20,380
Extend Expiring Provisions:								
Minimum tax relief for individuals	–11,673	–60,908	14,216	....	....	....	–46,692	–46,692
Research and experimentation (R&E) tax credit	–3,221	–7,071	–9,145	–10,601	–11,809	–12,833	–51,459	–133,060
First-time homebuyer credit for the District of Columbia	–1	–20	–19	....	....	....	–39	–39
Deferral of gains from sales of electric transmission property	–31	–66	–61	–10	31	40	–66	30
New Markets tax credit	....	–132	–194	–191	–217	–231	–965	–1,287
Subpart F “active financing” exception	....	–1,598	–1,065	....	....	....	–2,663	–2,663
Subpart F “look-through” exception	....	–347	–231	....	....	....	–578	–578
Exception for retirement plan distributions provided individuals called to active duty for at least 179 days [2]	....	....	....	....	....	....	....	....
Disclosure of tax return information related to terrorist activity [2]	....	....	....	....	....	....	....	....
Disclosure of tax return information to the Department of Veterans Affairs [2]	....	....	....	....	....	....	....	....
Excise tax on coal [4]	....	....	....	....	....	....	....	1,387
Total, extend expiring provisions [4]	–14,926	–70,142	3,501	–10,802	–11,995	–13,024	–102,462	–182,902

Table 17–3. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	2008	2009	2010	2011	2012	2013	2009–13	2009–18
Total budget proposals, including proposals assumed in the baseline [4]	–140,893	–117,186	–35,906	–192,583	–252,123	–265,496	–863,294	–2,310,205
Total budget proposals, excluding proposals assumed in the baseline [4]	–140,471	–115,109	–22,811	–33,796	–30,945	–25,541	–228,202	–233,435

[1] Affects both receipts and outlays. Only the receipt effect is shown here. For the outlay effect, see summary Table S–6 of the Budget volume.
[2] No net budgetary impact.
[3] "Tax gap"-related proposals.
[4] Net of income offsets.

Table 17–4. RECEIPTS BY SOURCE

(In millions of dollars)

Source	2007 Actual	Estimate 2008	2009	2010	2011	2012	2013
Individual income taxes (federal funds):							
Existing law	1,163,472	1,231,955	1,337,632	1,433,193	1,652,986	1,781,816	1,898,384
Proposed legislation	....	–12,294	–78,591	–15,850	–153,991	–181,941	–189,312
Total individual income taxes	**1,163,472**	**1,219,661**	**1,259,041**	**1,417,343**	**1,498,995**	**1,599,875**	**1,709,072**
Corporation income taxes:							
Federal funds:							
Existing law	370,240	348,739	348,338	348,397	366,607	402,459	391,511
Proposed legislation	....	–3,403	–9,114	–9,463	–9,837	–11,150	–11,713
Total Federal funds corporation income taxes	370,240	345,336	339,224	338,934	356,770	391,309	379,798
Trust funds:							
Hazardous substance superfund	3	....	....	....	....	....	....
Total corporation income taxes	**370,243**	**345,336**	**339,224**	**338,934**	**356,770**	**391,309**	**379,798**
Social insurance and retirement receipts (trust funds):							
Employment and general retirement:							
Old-age and survivors insurance (Off-budget)	542,901	566,104	595,659	632,980	667,995	699,735	734,126
Proposed legislation	....	....	–1,061	–239	–52	–6	290
Disability insurance (Off-budget)	92,188	96,111	101,146	107,487	113,433	118,823	124,663
Proposed legislation	....	....	–180	–40	–9	–1	49
Hospital insurance	184,908	195,453	205,360	217,240	229,679	240,987	253,007
Proposed legislation	....	....	–5,644	–7,207	–5,668	–3,880	–539
Railroad retirement:							
Social Security equivalent account	1,952	1,996	2,058	2,111	2,163	2,215	2,267
Rail pension and supplemental annuity	2,309	2,359	2,308	2,344	2,403	2,462	2,518
Total employment and general retirement	824,258	862,023	899,646	954,676	1,009,944	1,060,335	1,116,381
On-budget	189,169	199,808	204,082	214,488	228,577	241,784	257,253
Off-budget	635,089	662,215	695,564	740,188	781,367	818,551	859,128
Unemployment insurance:							
Deposits by States [1]	33,709	35,750	37,183	37,882	38,573	39,617	41,109
Proposed legislation	....	....	....	43	42	–134	–324
Federal unemployment receipts [1]	7,292	7,541	6,326	5,999	6,243	6,490	6,389
Proposed legislation	....	....	1,348	581	....	....	–67
Railroad unemployment receipts [1]	90	91	96	109	122	125	122
Total unemployment insurance	41,091	43,382	44,953	44,614	44,980	46,098	47,229
Other retirement:							
Federal employees' retirement—employee share	4,207	4,695	4,751	4,720	4,737	4,951	4,902
Proposed legislation	....	....	1	2	3	4	5
Non-Federal employees retirement [2]	51	25	26	27	26	23	20
Total other retirement	4,258	4,720	4,778	4,749	4,766	4,978	4,927
Total social insurance and retirement receipts	**869,607**	**910,125**	**949,377**	**1,004,039**	**1,059,690**	**1,111,411**	**1,168,537**
On-budget	234,518	247,910	253,813	263,851	278,323	292,860	309,409
Off-budget	635,089	662,215	695,564	740,188	781,367	818,551	859,128
Excise taxes:							
Federal funds:							
Alcohol taxes	8,648	8,894	9,017	9,180	9,365	9,535	9,765
Proposed legislation	....	–75	–102	–25	....	....	....
Tobacco taxes	7,556	7,622	7,526	7,436	7,353	7,274	7,200
Transportation fuels tax	–3,291	–4,261	–4,941	–5,724	–1,500	228	227
Telephone and teletype services	–2,125	586	330	227	158	111	105
Proposed legislation	....	....	–330	–227	–158	–111	–105
Other Federal fund excise taxes	288	2,089	2,083	2,107	2,130	2,166	2,211
Proposed legislation	....	–30	–50	–181	–209	–212	–215

Table 17–4. RECEIPTS BY SOURCE—Continued

(In millions of dollars)

Source	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Total Federal fund excise taxes	11,076	14,825	13,533	12,793	17,139	18,991	19,188
Trust funds:							
Highway	39,361	39,203	39,928	40,674	41,148	41,702	42,334
Airport and airway	11,468	11,871	12,570	13,328	14,073	14,861	15,690
Proposed legislation	....	....	....	–8,969	–9,418	–9,975	–10,484
Sport fish restoration and boating safety	581	561	578	595	614	633	653
Tobacco assessments	934	960	960	960	960	960	960
Black lung disability insurance	639	638	648	666	686	699	711
Inland waterways	91	89	90	90	92	92	93
Proposed legislation	....	....	–41	–65	–92	–92	–93
Oil spill liability	452	273	261	252	245	245	249
Vaccine injury compensation	241	218	219	220	222	224	226
Leaking underground storage tank	226	197	200	203	204	206	208
Proposed legislation	....	....	....	–1	–1	–1	–2
Total trust funds excise taxes	53,993	54,010	55,413	47,953	48,733	49,554	50,545
Total excise taxes	**65,069**	**68,835**	**68,946**	**60,746**	**65,872**	**68,545**	**69,733**
Estate and gift taxes:							
Federal funds	26,044	26,733	27,785	20,997	19,400	48,176	54,565
Proposed legislation	....	24	–1,472	–1,454	–17,936	–47,755	–54,060
Total estate and gift taxes	**26,044**	**26,757**	**26,313**	**19,543**	**1,464**	**421**	**505**
Customs duties:							
Federal funds	24,671	27,906	29,815	32,245	34,286	36,272	38,240
Proposed legislation	....	–115	–2,204	–3,093	–3,567	–3,211	–3,236
Trust funds	1,339	1,417	1,511	1,623	1,753	1,894	2,039
Total customs duties	**26,010**	**29,208**	**29,122**	**30,775**	**32,472**	**34,955**	**37,043**
MISCELLANEOUS RECEIPTS: [3]							
Miscellaneous taxes	510	528	529	532	534	537	539
United Mine Workers of America combined benefit fund	44	83	84	72	58	53	49
Deposit of earnings, Federal Reserve System	32,043	31,358	31,652	33,361	36,066	39,119	41,694
Defense cooperation	34	35	35	35	35	35	35
Fees for permits and regulatory and judicial services	10,395	10,657	11,758	12,453	12,896	13,994	13,618
Proposed legislation	....	....	154	182	210	242	210
Fines, penalties, and forfeitures	4,542	3,417	3,435	3,057	3,078	3,099	3,120
Gifts and contributions	238	197	199	198	205	205	204
Proposed legislation	....	....	100	100	100	100	100
Refunds and recoveries	–12	–22	–22	–22	–22	–22	–22
Total miscellaneous receipts	**47,794**	**46,253**	**47,924**	**49,968**	**53,160**	**57,362**	**59,547**
Economic growth package	....	**–125,000**	**–20,000**	**10,000**	**8,000**	**6,000**	**4,000**
Total budget receipts	**2,568,239**	**2,521,175**	**2,699,947**	**2,931,348**	**3,076,423**	**3,269,878**	**3,428,235**
On-budget	1,933,150	1,858,960	2,004,383	2,191,160	2,295,056	2,451,327	2,569,107
Off-budget	635,089	662,215	695,564	740,188	781,367	818,551	859,128
MEMORANDUM							
Federal funds	1,661,420	1,556,704	1,696,812	1,878,246	1,966,799	2,107,609	2,207,794
Trust funds	648,313	697,722	730,885	745,457	787,379	821,233	878,609
Interfund transactions	–376,583	–395,466	–423,314	–432,543	–459,122	–477,515	–517,296
Total on-budget	**1,933,150**	**1,858,960**	**2,004,383**	**2,191,160**	**2,295,056**	**2,451,327**	**2,569,107**
Off-budget (trust funds)	**635,089**	**662,215**	**695,564**	**740,188**	**781,367**	**818,551**	**859,128**
Total	**2,568,239**	**2,521,175**	**2,699,947**	**2,931,348**	**3,076,423**	**3,269,878**	**3,428,235**

[1] Deposits by States cover the benefit part of the program. Federal unemployment receipts cover administrative costs at both the Federal and State levels. Railroad unemployment receipts cover both the benefits and adminstrative costs of the program for the railroads.

[2] Represents employer and employee contributions to the civil service retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.

[3] Includes both Federal and trust funds.

18. USER CHARGES AND OTHER COLLECTIONS

In addition to collecting taxes and other receipts by the exercise of its sovereign powers, which is discussed in the previous chapter in this volume in Chapter 17, "Federal Receipts," the Federal Government collects income from the public from market-oriented activities and the financing of regulatory expenses. These collections are classified as user charges, and examples of these charges include the sale of postage stamps and electricity, charges for admittance to national parks, premiums for deposit insurance, and proceeds from the sale of assets, such as rents and royalties for the right to extract oil from the Outer Continental Shelf.

Depending on the laws that authorize the user charges, most are credited to expenditure accounts as "offsetting collections," or to receipt accounts as "offsetting receipts." The budget refers to these amounts as "offsetting" because they are subtracted from gross outlays rather than added to taxes on the receipts side of the budget. The purpose of this treatment is to produce budget totals for receipts, outlays, and budget authority in terms of the amount of resources allocated governmentally, through collective political choice, rather than through the market.[1] In addition, some regulatory fees therefore are classified as governmental receipts and are on the receipts side of the budget.

Usually offsetting collections are authorized to be spent for the purposes of the account without further action by the Congress. Offsetting receipts may or may not be earmarked for a specific purpose, depending on the legislation that authorizes them. When earmarked, the authorizing legislation may either authorize them to be spent without further action by the Congress, or require them to be appropriated in annual appropriations acts before they can be spent.

Offsetting collections and receipts include most user charges, which are discussed below, as well as some amounts that are not user charges. Table 18–1 summarizes these transactions. For 2009, total offsetting collections and receipts from the public are estimated to be $330.2 billion, and total user charges are estimated to be $256.1 billion.

The following section discusses user charges and the Administration's user charge proposals. The subsequent section displays more information on offsetting collections and receipts. The offsetting collections and receipts by agency are displayed in Table 21–1, which appears in Chapter 21, "Outlays to the Public, Gross and Net," of this volume. Collections specifically related to credit programs are discussed in Chapter 7, "Credit and Insurance."

Table 18–1. GROSS OUTLAYS, USER CHARGES, OTHER OFFSETTING COLLECTIONS AND RECEIPTS FROM THE PUBLIC, AND NET OUTLAYS

(In billions)

	Actual 2007	Estimate	
		2008	2009
Gross outlays	3,050.9	3,269.6	3,437.6
Offsetting collections and receipts from the public:			
User charges [1]	229.5	248.0	252.1
Other	91.2	90.4	78.1
Subtotal, offsetting collections and receipts from the public	320.7	338.4	330.2
Net outlays	2,730.2	2,931.2	3,107.4

[1] Total user charges are shown below. They include user charges that are classified on the receipts side of the budget in addition to the amounts shown on this line. For additional details of total user charges, see Table 18–2, "Total User Charge Collections."

Total user charges:			
Offsetting collections and receipts from the public	229.5	248.0	252.1
Receipts	3.9	3.5	4.0
Total, User charges	233.3	251.5	256.1

[1] Showing collections from business-type transactions as offsets on the spending side of the budget follows the concept recommended by the *Report of the President's Commission on Budget Concepts in 1967*. The concept is discussed in Chapter 26: "The Budget System and Concepts" in this volume.

USER CHARGES

I. Introduction and Background

The Federal Government often assesses user charges on those who benefit directly from a particular activity or those subject to regulation. Based on the definition used in this chapter, Table 18–2 shows that user charges were $233.3 billion in 2007, and are estimated to increase to $251.5 billion in 2008 and to $256.1 billion in 2009, growing to an estimated $303.8 billion in 2013, including the user charges proposals that are shown in Table 18–3. This table shows that the Administration's user charge proposals, including extension of expiring charges, would increase user charges by an estimated $4.5 billion in 2009, growing to an estimated $19.7 billion in 2013.

Definition. User charges are fees, charges, and assessments levied on individuals or organizations directly benefiting from, or subject to regulation by, a Government program or activity. In addition, the payers of the charge must be limited to those benefiting from, or subject to regulation by, the program or activity, and may not include the general public, and generally does not apply to a broad segment of the public (such as those who pay income taxes or customs duties).

- Examples of business-type or market-oriented user charges include charges for the sale of postal services (the sale of stamps), electricity (e.g., sales by the Tennessee Valley Authority), proceeds from the sale of goods by defense commissaries, payments for Medicare voluntary supplemental medical insurance, life insurance premiums for veterans, recreation fees for parks, and proceeds from the sale of assets (property, plant, and equipment) and natural resources (such as timber, oil, and minerals).
- Examples of regulatory and licensing user charges include charges for regulating the nuclear energy industry, bankruptcy filing fees, immigration fees, food inspection fees, passport fees, and patent and trademark fees.

The "user charges" concept used here aligns these estimates with the concept that establishes policy for charging prices to the public for the sale or use of goods, services, property, and resources (see OMB Circular No. A–25, "User Charges," July 8, 1993).

User charges do not include all offsetting collections and receipts from the public, such as repayments received from credit programs; interest, dividends, and other earnings; payments from one part of the Federal Government to another; or cost sharing contributions. Nor do they include earmarked taxes (such as taxes paid to social insurance programs or excise taxes on gasoline), or customs duties, fines, penalties, and forfeitures.

Alternative definitions. The definition used in this chapter is useful because it is similar to the definition used in OMB Circular No. A–25, "User Charges," which provides policy guidance to Executive Branch agencies on setting prices for user charges. Alternative definitions may be used for other purposes. Much of the discussion of user charges below—their purpose, when they should be levied, and how the amount should be set—applies to these alternatives as well.

Other definitions of user charges could, for example:

- be narrower than the one used here, by limiting the definition to proceeds from the sale of goods and services (and excluding the sale of assets), and by limiting the definition to include only proceeds that are earmarked to be used specifically to finance the goods and services being provided. This definition is similar to one the House of Representatives uses as a guide for purposes of committee jurisdiction. (See the *Congressional Record,* January 3, 1991, p. H31, item 8.)
- be even narrower than the user fee concept described above, by excluding regulatory fees and focusing solely on business-type transactions.
- be broader than the one used in this chapter by including beneficiary- or liability-based excise taxes, such as gasoline taxes. [2]

What is the purpose of user charges? The purpose of user charges is to improve the efficiency and equity of certain Government activities, and to reduce the burden on taxpayers to finance activities whose benefits accrue to a relatively limited number of people, or to impose a charge on activities that impose a cost on the public.

User charges that are set to cover the costs of production of goods and services can provide efficiency in the allocation of resources within the economy. They allocate goods and services to those who value them the most, and they signal to the Government how much of the goods or services it should provide. Prices in private, competitive markets serve the same purposes.

User charges for goods and services that do not have special social benefits improve equity, or fairness, by requiring that those who benefit from an activity are the same people who pay for it. The public often perceives user charges as fair because those who benefit from the good or service pay for it in whole or in part, and those who do not benefit do not pay.

When should the Government charge a fee? Discussions of whether to finance spending with a tax or a fee often focus on whether the benefits of the activity are to the public in general or to a limited group of people. In general, if the benefits accrue broadly to the public, then the program should be financed by taxes paid by the public; in contrast, if the benefits

[2] Beneficiary- and liability-based taxes are terms taken from the Congressional Budget Office, *The Growth of Federal User Charges*, August 1993, and updated in October 1995. In addition to gasoline taxes, examples of beneficiary-based taxes include taxes on airline tickets, which finance air traffic control activities and airports. An example of a liability-based tax is the excise tax that formerly helped fund the hazardous substance superfund in the Environmental Protection Agency. This tax was paid by industry groups to finance environmental cleanup activities related to the industry activity but not necessarily caused by the payer of the fee.

accrue to a limited number of private individuals or organizations, then the program should be financed by charges paid by the private beneficiaries. For Federal programs where the benefits are entirely public or entirely private, applying this principle is relatively easy. For example, according to this principle, the benefits from national defense accrue to the public in general and should be (and are) financed by taxes. In contrast, the benefits of electricity sold by the Tennessee Valley Authority accrue exclusively to those using the electricity, and should be (and are) financed by user charges.

In many cases, however, an activity has benefits that accrue to both public and to private groups, and it may be difficult to identify how much of the benefits accrue to each. Because of this, it can be difficult to know how much of the program should be financed by taxes and how much by fees. For example, the benefits from recreation areas are mixed. Fees for visitors to these areas are appropriate because the visitors benefit directly from their visit, but the public in general also benefits because these areas protect the Nation's natural and historic heritage now and for posterity.

As a further complication, where a fee may be appropriate to finance all or part of an activity, some consideration must be given to the ease of administering the fee.

What should be the amount of the fee? For programs that have private beneficiaries, the amount of the charge should depend on the costs of producing the goods or services and the portion of the program that is for private benefits. If the benefit is primarily private and any public benefits are incidental, current policies support charges that cover the full cost to the Government, including both direct and indirect costs. When the Government is not acting in its capacity as sovereign and engages in a business-type transaction (i.e., leasing or selling goods, services, or resources), market price should be the basis for establishing the fee. [3]

The Executive Branch is working to put cost accounting systems in place across the Government that would make the calculation of full cost more feasible. The difficulties in measuring full cost are associated in part with allocating to an activity the full costs of capital, retirement benefits, and insurance, as well as other Federal costs that may appear in other parts of the budget. Guidance in the Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Standards" for the Federal Government (July 31, 1995), should underlie cost accounting in the Federal Government.

Classification of user charges in the budget. As shown in Table 18–1, most user charges are classified as offsets to outlays on the spending side of the budget, but a few are classified on the receipts side of the budget. An estimated $4.0 billion in 2009 are classified on the receipts side and are included in the totals described in Chapter 17. "Federal Receipts." They are classified as receipts because they are regulatory charges collected by the Federal Government by the exercise of its sovereign powers. Examples include filing fees in the United States courts, agricultural quarantine inspection fees, and passport fees. These regulatory charges are unlike user fees classified as offsets to outlays, which are normally for identifiable goods or services whose benefits primarily fall to the party paying the fee and for which alternatives may exist in the private sector or State and local sector.

The remaining user charges, an estimated $252.1 billion in 2009, are classified as offsetting collections and receipts on the spending side of the budget. Some of these are collected by the Federal Government by the exercise of its sovereign powers and conceptually would appear on the receipts side of the budget, but are required by law to be classified on the spending side as offsetting collections or receipts. Examples of these fees include immigration examination fees, U. S. customs processing fees, and nuclear regulatory fees.

As shown in Table 18–4, an estimated $157.2 billion of user charges for 2009 are credited directly to expenditure accounts, and are generally available for expenditure when they are collected, without further action by the Congress. An estimated $94.9 billion of user charges for 2009 are deposited in offsetting receipt accounts, and are available to be spent only according to the legislation that established the charges.

As a further classification, the accompanying Tables 18–2 and 18–3 identify the user charges as discretionary or mandatory. These classifications are terms from the Budget Enforcement Act of 1990 as amended and are used frequently in the analysis of the budget. "Discretionary" in this chapter refers to user charges generally controlled through annual appropriations acts and under the jurisdiction of the appropriations committees in the Congress. "Mandatory" refers to user charges controlled by permanent laws and under the jurisdiction of the authorizing committees.

These and other classifications are discussed further in this volume in Chapter 26, "The Budget System and Concepts."

II. TOTAL USER CHARGES

As shown in Table 18–2, total user charge collections (including those proposed in this Budget) are estimated to be $256.1 billion in 2009, increasing to $303.8 billion in 2013. User charge collections by the Postal Service

[3] Policies for setting user charges are promulgated in OMB Circular No. A–25: "User Charges" (July 8, 1993).

Table 18–2. TOTAL USER CHARGE COLLECTIONS

(In millions of dollars)

	Actual 2007	Estimates 2008	2009	2010	2011	2012	2013
Receipts							
Judicial Branch: Filing fees, U. S. courts	189	189	193	209	214	219	224
Department of Agriculture: Agricultural quarantine inspection fees	472	537	560	577	594	612	630
Department of the Interior: Abandoned mine reclamation fund	305	295	299	305	315	317	287
Department of State: Immigration, passport, and consular fees	1,067	821	915	1,036	1,033	1,029	1,029
Department of the Treasury: Premiums, terrorism risk insurance program	....	....	116	327	554	1,336	773
Corps of Engineers: Harbor maintenance fees	1,262	1,353	1,446	1,556	1,685	1,825	1,969
Other	562	330	446	402	408	443	415
Subtotal, receipts	3,857	3,525	3,975	4,412	4,803	5,781	5,327
Offsetting Collections and Receipts from the Public							
Discretionary							
Department of Agriculture: Food safety inspection and other charges	299	292	307	285	289	288	290
Department of Commerce: Patent and trademark, fees for weather services, and other charges	1,929	2,050	2,209	2,334	2,509	2,770	3,029
Department of Defense: Commissary and other charges	10,290	10,301	10,296	10,285	10,285	10,285	10,285
Department of Energy: Federal Energy Regulation Commission, power marketing, and other charges	998	1,601	1,548	1,486	1,499	1,492	1,484
Department of Health and Human Services: Food and Drug Administration, Centers for Medicare and Medicaid Services, and other charges	1,329	1,501	1,398	1,247	1,256	1,250	1,246
Department of Homeland Security: Border and Transportation Security and other charges	2,474	2,258	2,486	2,551	2,636	2,724	2,815
Department of the Interior: Minerals Management Service and other charges	660	723	858	815	841	835	817
Department of Justice: Charges for bankruptcy oversight and other charges	293	370	293	281	284	282	281
Department of State: Passport and other charges	1,189	2,138	2,216	2,283	2,353	2,424	2,498
Department of Transportation: Pipeline safety, aviation, and other charges	158	161	221	8,763	9,064	9,606	10,167
Department of the Treasury: Sale of commemorative coins and other charges	2,430	2,762	2,741	2,631	2,654	2,641	2,627
Department of Veterans Affairs: Medical care and other charges	2,334	2,448	2,579	2,738	2,851	2,959	3,136
General Services Administration: Federal buildings fund and other charges	155	82	42	40	41	40	40
Social Security Administration: State supplemental fees, supplemental security income	119	135	145	159	184	166	193
Federal Communications Commission: Regulatory fees	381	397	423	407	409	408	405
Federal Trade Commission: Regulatory fees	167	165	191	183	185	184	183
Nuclear Regulatory Commission: Regulatory fees	669	779	855	825	832	830	828
Securities and Exchange Commission: Regulatory fees	1,539	1,147	1,332	1,280	1,291	1,286	1,280
All other agencies, discretionary user charges	783	330	170	162	163	162	159
Subtotal, discretionary user charges	28,196	29,640	30,310	38,755	39,626	40,632	41,763
Mandatory							
Department of Agriculture: Crop insurance and other charges	2,053	1,983	3,054	3,057	2,956	2,874	2,875
Department of Defense: Commissary surcharge and other charges	992	816	779	599	601	558	558
Department of Energy: Proceeds from the sale of energy, nuclear waste disposal, and other charges	4,540	4,559	4,689	4,500	4,636	4,609	4,499
Department of Health and Human Services: Medicare Part B and Part D insurance premiums and other charges	55,017	59,325	62,187	64,196	67,302	71,418	77,408
Department of Homeland Security: Customs, immigration, and other charges	7,715	8,671	9,230	9,060	9,390	9,677	9,547
Department of the Interior: Recreation and other charges	4,892	5,666	6,552	7,799	6,481	5,894	6,604
Department of Justice: Federal Prison Commissary fees and other charges	508	528	570	584	597	611	625
Department of Labor: Insurance premiums to guaranty private pensions and other charges	3,629	3,830	5,296	7,697	8,436	8,970	9,313
Department of the Treasury: Bank regulation, and other charges	1,077	1,137	1,197	1,242	1,284	1,329	1,376
Department of Veterans Affairs: Veterans life insurance and other charges	2,374	2,342	2,220	2,222	2,194	2,224	2,220
Office of Personnel Management: Federal employee health and life insurance fees	11,652	12,309	13,023	13,912	14,943	15,880	16,994
Federal Deposit Insurance Corporation: Deposit insurance and other charges	592	5,546	9,947	13,141	14,462	14,426	13,865
National Credit Union Administration: Credit union share insurance and other charges	440	390	434	446	453	481	500
Postal Service: Fees for postal services	73,891	76,961	78,322	80,395	82,784	84,822	86,254
Tennessee Valley Authority: Proceeds from the sale of energy	9,451	10,106	10,523	10,573	10,124	10,509	10,619
Undistributed Offsetting Receipts:							
Department of Commerce: Digital television transition and public safety fund	....	11,800	2,058	....	....	....	....
Department of the Interior: Arctic National Wildlife Refuge, lease bonuses	....	....	....	7,004	4	1,006	6
Executive Office of the President: Spectrum relocation receipts	6,850	....	....	....	....	....	....
Federal Communications Commission: Spectrum auction receipts	6,850	300	200	200	175	220	215
Outer Continental Shelf receipts and other collections	6,763	11,200	10,369	10,675	11,131	11,166	12,014
All other agencies, mandatory user charges	1,990	845	1,118	1,143	1,186	1,195	1,249
Subtotal, mandatory user charges	201,276	218,314	221,768	238,445	239,139	247,869	256,741
Subtotal, user charges that are offsetting collections and receipts from the public	229,472	247,954	252,078	277,200	278,765	288,501	298,504
TOTAL, User charges	**233,329**	**251,479**	**256,053**	**281,612**	**283,568**	**294,282**	**303,831**

and for Medicare premiums are the largest and are estimated to be more than half of total user charge collections in 2009.

III. USER CHARGE PROPOSALS

As shown in Table 18–3, the Administration is proposing new or increased user charges, including proposed extensions of expiring charges, that would increase collections by an estimated $4.5 billion in 2009, increasing to $19.7 billion in 2013. These amounts are collections and receipts only. They do not include related spending.

A. Discretionary User Charge Proposals

1. Offsetting collections

Department of Agriculture: Forest Service

Fees for ecosystem services. The Budget reflects the President's commitment to cooperative conservation and includes Ecosystems Services Demonstration Projects that bring new partners together with the Forest Service in a broad effort to advance market-based conservation. The Budget provides the Secretary of Agriculture with the authority to retain the proceeds of payments made by willing entities such as municipalities for services derived from a particular set of management activities that restore, enhance, and protect ecosystem function on National Forest System lands. Examples of the outcomes of these management activities include protecting water quality, restoring long leaf pine forests, or reducing the risk of catastrophic wildfires.

Department of Defense (DOD)

Medical care enrollment fees and deductible. The Budget gives DOD the authority to increase enrollment fees and deductibles for military retirees under age 65 (and families). The new cost shares differ for officer and enlisted retirees and for those in the different types of plans. The Budget also assumes that retail pharmacy co-payments for all military retirees will increase. None of these changes apply to active-duty members and their dependents. DOD will take into account the recommendations of the DOD Task Force on the Future of Military Health Care before final implementation. The total 2009 savings for these proposals is estimated to be $1,184 million.

Department of Health and Human Services: Food and Drug Administration (FDA)

Drug review user fees for generic animal drugs. The purpose of the user fee is to improve review times of generic animal drug applications. The Budget proposes a new user fee to generate additional resources to support FDA generic animal drug review activities. The proposed generic drug user fee would be targeted to improve review times and reduce the current backlog of generic animal drug applications.

Generic drug review activities fees. Generic drugs play an important role in reducing the cost of pharmaceuticals. The Budget proposes a new user fee to generate additional resources to support FDA's generic drug review activities. Similar to the purpose of FDA's current prescription drug user fees, the proposed generic drug user fee would be targeted towards improving review times and reducing the current backlog of applications.

Follow-on biologics user fees. The Budget proposes to establish a new regulatory pathway for FDA to approve follow-on biologics (FOB). FOBs are generic versions of therapies that contain proteins derived from living cells. The Administration proposal would protect patient safety, promote innovation, and include a financing structure to cover the costs of this activity through user fees. The 2009 Budget does not include user fee estimates.

Animal drug user fee reauthorization. The Animal Drug User Fee Act will expire on October 1, 2008. This law authorizes FDA to assess and collect fees associated with the pre-market review of animal drugs. The Administration supports reauthorizing the collection and spending of these fees.

Centers for Medicare and Medicaid Services

Survey and certification user fees. The Budget proposes a user fee for the survey and certification program within the Centers for Medicare and Medicaid Services. The agency would charge facilities participating in Medicare and Medicaid a fee for conducting follow-up surveys, which verify that they have taken appropriate action to correct identified deficiencies in compliance with specific Federal health, safety, and quality standards.

Department of the Interior

Bureau of Land Management: Repeal Energy Act fee prohibition. A last-minute addition to the 2005 Energy Policy Act prohibited the Bureau of Land Management from implementing new user fees for oil and gas permit processing and instead diverted existing rental receipts to make up for the lost program funding. The Budget proposes to repeal these changes and substitute user fees for the mandatory funding provided by the Act. The proposed fees are expected to generate at least $34 million per year beginning in 2009, thereby reducing the cost to taxpayers for operating a program that benefits specific users. Notwithstanding the fee prohibition, a comparable oil and gas permitting fee was enacted as part of the 2008 Consolidated Appropriations Act, but this fee is only in place for fiscal year 2008. The Administration is proposing a more permanent solution through a repeal of the Energy Policy Act fee prohibition.

Table 18–3. USER FEE AND OTHER USER CHARGE PROPOSALS [1]

(Estimated collections in millions of dollars)

	2008	2009	2010	2011	2012	2013	2009–2013
OFFSETTING COLLECTIONS AND RECEIPTS							
DISCRETIONARY:							
1. Offsetting collections							
Department of Agriculture							
Forest Service: Fees for ecosystem services	....	10	....	....	....	....	10
Department of Defense							
Medical care enrollment fees and deductible	....	1,184	2,598	3,703	4,043	4,397	15,925
Department of Health and Human Services							
Food and Drug Administration:							
Drug review user fees for generic animal drugs	....	5	5	5	5	5	25
Generic drug review activities fees	....	17	17	17	17	17	84
Follow-on biologics user fees	....	....	....	....	....	....	....
Animal drug user fee reauthorization	....	14	14	14	14	15	70
Centers for Medicare and Medicaid Services: Survey and certification user fees	....	35	34	34	34	34	171
Department of the Interior							
Bureau of Land Management: Repeal Energy Act fee prohibition	....	34	34	34	34	34	170
Department of Transportation							
Federal Aviation Administration: User fee proposal	....	....	8,550	8,849	9,392	9,953	36,744
2. Offsetting receipts							
Department of Housing and Urban Development							
Office of Federal Housing Enterprise Oversight	....	–67	–64	–65	–65	–70	–331
Subtotal, discretionary user charge proposals	....	1,232	11,187	12,590	13,473	14,384	52,867
MANDATORY:							
1. Offsetting collections							
Department of Labor							
Pension Benefit Guaranty Corporation premiums	....	380	2,217	2,093	2,127	2,056	8,873
Federal Housing Enterprise Regulator							
Government-Sponsored Enterprises regulatory fee	....	107	110	113	116	119	565
Federal Housing Finance Board							
Federal Home Loan Bank fees	....	–38	–40	–41	–43	–43	–205
2. Offsetting receipts							
Department of Agriculture							
Food Safety and Inspection Service user fees [2]	....	96	98	100	102	104	500
Grain, Inspection, Packers, and Stockyards Administration user fees [2]	....	27	30	30	31	32	150
Animal and Plant Health Inspection Service user fees [2]	....	20	27	27	28	29	131
Agricultural Marketing Service inspection and grading services	....	10	10	10	10	10	50
Federal crop insurance fees [2]	....	....	15	15	15	15	60
Department of Health and Human Services							
Food and Drug Administration: Re-inspection fees and export certification fees [2]	....	27	28	28	29	30	142
Centers for Medicare and Medicaid: Additional Medicare premiums	....	410	730	1,000	1,320	1,720	5,180
Department of Homeland Security							
Passenger security fee surcharge to fund baggage screening systems	....	426	426	426	426	....	1,704
Department of Housing and Urban Development							
Government-Sponsored Enterprises oversight fees	....	6	6	6	6	6	30
Department of the Interior							
Arctic National Wildlife Refuge lease bonuses:							
Collections for payment to Alaska	....	....	3,502	2	503	3	4,010
Collections deposited in the Treasury	....	....	3,502	2	503	3	4,010
Require upfront payment of coal bonus bid receipts:							
Collections for payment to States	....	385	676	–48	–506	–225	282
Collections deposited in the Treasury	....	385	676	–48	–506	–225	282
Amend Bureau of Land Management's Federal land sale authority	....	5	10	50	50	55	170
Department of Labor							
Foreign labor certification fees	....	95	95	95	95	95	475
Department of Veterans Affairs							
Pharmacy co-pay increase [2]	....	335	292	287	334	355	1,603
Income-based medical care enrollment fees [2]	....	....	129	127	130	128	514
Third-party insurance co-payment offset [2]	....	44	44	44	43	43	218
Corps of Engineers—Civil Works							
Additional recreation fees	....	9	17	17	17	17	77
Environmental Protection Agency							
Pesticide user fees [2]	....	48	48	47	47	59	249
Pre-manufacture notice user fees [2]	....	4	8	8	8	8	36

Table 18–3. USER FEE AND OTHER USER CHARGE PROPOSALS [1]—Continued

(Estimated collections in millions of dollars)

	2008	2009	2010	2011	2012	2013	2009–2013
Commodity Futures Trading Commission							
Transaction fees [2]	....	96	100	103	107	111	517
Federal Communications Commission							
Spectrum license fee authority	50	150	300	300	400	450	1,600
Prospective ancillary terrestrial component spectrum license fees	30	60	100	125	125	125	535
Extend spectrum auction authority	....	....	....	....	200	200	400
Domestic satellite spectrum auctions	250	100	100	75	20	15	310
Subtotal, mandatory user charge proposals	330	3,187	13,256	4,993	5,737	5,295	32,468
Subtotal, user charge proposals that are offsetting collections and receipts	330	4,419	24,443	17,583	19,210	19,679	85,335
GOVERNMENTAL RECEIPTS							
Department of the Interior							
Migratory bird hunting and conservation stamps	....	14	14	14	14	14	70
Department of Transportation							
Federal Aviation Administration overflight fees	....	....	–54	–56	–58	–60	–228
Corps of Engineers—Civil Works							
Inland waterways trust fund (net impact)	....	99	103	104	136	103	545
Subtotal, governmental receipts user charge proposals	....	113	63	62	92	57	387
Total, user charge proposals	**330**	**4,532**	**24,506**	**17,645**	**19,302**	**19,736**	**85,722**

[1] A negative sign indicates a decrease in collections.
[2] If enacted, the Administration will work to classify the collections as discretionary offsets beginning in 2010.

Department of Transportation: Federal Aviation Administration (FAA)

User fee proposal. The Budget includes a reauthorization proposal that would make the Federal Aviation Administration's financing system more cost-based. The FAA's current excise tax system, which generated $11.5 billion in 2007, is largely based on taxes on the price of airline tickets. This system does not have a direct relationship between the taxes paid by users and the air traffic control services provided by the FAA. Under the reauthorization proposal, FAA would collect user fees from commercial aviation operators for air traffic control (ATC) services. Implementing user fees for ATC services creates incentives to make the system more efficient and responsive to user needs. FAA would have the authority to collect the user fees that directly offset the cost of its operations; expenditure of the proceeds from these fees would be subject to the appropriations process. The Budget assumes FAA will implement its new financing system starting in 2010, and estimates FAA will collect $8.6 billion in user fees during the first year.

2. Offsetting receipts

Department of Housing and Urban Development

Office of Federal Housing Enterprise Oversight. This proposal is discussed below in the section on the Federal Housing Enterprise Regulator.

B. Mandatory User Charge Proposals

1. Offsetting collections

Department of Labor

Pension Benefit Guaranty Corporation (PBGC) premiums. While the Deficit Reduction Act of 2005 and the Pension Protection Act of 2006 made significant structural changes to the retirement system, they did not fully address the long-term challenges facing PBGC. Further reforms are needed to address the current $14 billion gap between PBGC's liabilities and its assets. The Budget proposes to give PBGC's Board the authority to raise premiums to produce the revenue necessary to meet expected future claims and retire PBGC's deficit over ten years. Under this proposal, PBGC's Board would have the flexibility to make a broad range of changes to premiums in order to improve PBGC's financial condition and safeguard the future benefits of American workers. The Administration is committed to restoring the solvency of the pension insurance system and avoiding a future taxpayer bailout.

Federal Housing Enterprise Regulator

Government-Sponsored Enterprises (GSE) regulatory fee. The Administration will again propose broad reform of the supervisory system for GSEs in the housing market. Fees currently collected by the Office of Federal Housing Enterprise Oversight in the Department of Housing and Development and the Federal Housing Finance Board would instead be collected by a new housing GSE safety and soundness regulator. For additional information, see the "Credit and Insurance" chapter in this volume.

Federal Housing Finance Board

Federal Home Loan Bank fees. This proposal is discussed above in the section on the Federal Housing Enterprise Regulator.

2. Offsetting receipts

Department of Agriculture

Food Safety and Inspection Service (FSIS) user fees. This Budget proposes two new user fees, a licensing fee and a performance fee. These two fees do not try to completely offset a specific portion of the Food Safety and Inspection Services operational expenses. The recommended fees, estimated to be $96 million in the first year, include:

- $92 million for a licensing fee scaled to the size of the operation, and
- $4 million for a performance fee. Plants that have resampling and retesting due to positive samples, recalls, or are linked to outbreaks would pay a fee to FSIS for each incident.

Grain Inspection, Packers, and Stockyards Administration (GIPSA) user fees. The Administration proposes to establish a fee to cover the cost associated with GIPSA's standardization activities and a licensing fee to cover the cost associated with administering meat packers and stockyards activities.

Animal and Plant Health Inspection Service user fees. The Administration proposes to establish user fees for animal welfare inspections for animal research facilities, carriers, and in-transit handlers of animals, and for individuals or companies who need a license to market a veterinary biologic and for permits for biotechnologically derived products.

Agricultural Marketing Service (AMS) inspection and grading services. Country of Origin Labeling (COOL) becomes mandatory for all covered commodities on September 30, 2008. Currently, AMS operates a small COOL enforcement program for fish and shellfish compliance (the only commodities where labeling is now required). As part of the 2009 Budget, the agency will propose to charge a mandatory fee for the full implementation of a complete COOL enforcement program for the following commodities, in addition to the current fish and shellfish items: muscle cuts of beef (including veal), lamb, and pork; ground beef, ground lamb and ground pork; perishable agricultural commodities; and peanuts. Additional commodities may also be considered. The additional funds will be deposited into the agency's existing trust account.

Federal crop insurance fees. The Administration proposes to implement a participation fee in the Federal crop insurance program to fund modernization and future maintenance of the existing information technology (IT) system. The fee would be charged to insurance companies participating in the Federal crop insurance program based on a rate of about one-half cent per dollar of premium sold. Because it is the companies that will most benefit from better, more advanced computer systems, it is reasonable that they contribute to the modernization and maintenance of these systems.

Department of Health and Human Services: Food and Drug Administration (FDA)

Re-inspection fees. FDA conducts post-market inspections of food, human drug, biologic, animal drug and feed, and medical device manufacturers to assess their compliance with Good Manufacturing Practice requirements. The Administration proposes new fees that would be assessed for repeat inspections due to violations found during the first inspection.

Food and animal feed export certification fees. FDA collects user fees for the issuance of export certifications for human and animal drugs, and medical devices as authorized by the Federal Food, Drug, and Cosmetic Act. The Administration proposes to expand FDA's authority to collect user fees for the issuance of export certificates for foods and animal feed. Timely issuance of food/feed export certificates funded through user fees would improve the ability of food and animal feed producers to export their products.

Centers for Medicare and Medicaid Services

Additional Medicare premiums. Medicare beneficiaries share in the costs of their health services through premiums, deductibles, and co-insurance. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) began to limit the growth in subsidies for certain higher-income beneficiaries. Beneficiaries who are most able to contribute to the costs of their coverage have more responsibility and ownership over their health care utilization and costs. In order to increase beneficiary knowledge about health care choices and costs, the Budget proposes to encourage greater individual responsibility for health care use and costs for high-income beneficiaries who are most able to contribute to the costs of their coverage.

Department of Homeland Security

Passenger security fee surcharge to fund baggage screening systems. The President's Budget proposes a temporary, four-year surcharge on the passenger security fee of $0.50 per enplanement with a maximum increase of $1.00 per one-way trip. The additional fee collections of an estimated $426 million per year would be deposited in the Aviation Security Capital Fund to recapitalize checked baggage screening devices deployed immediately after September 11, 2001, and accelerate deployment of inline systems that will increase baggage throughput up to 300 percent.

Department of Housing and Urban Development (HUD)

Government-Sponsored Enterprises (GSE) oversight fees. Upon enactment of the Administration's proposal for a strengthened regulator for GSEs, the cost of HUD's responsibilities under the Federal Housing Enterprise Safety and Soundness Act of 1992, and amendments as proposed, would be assessed on Fannie Mae and Freddie Mac. These responsibilities include the establishment and enforcement of affordable housing goals for the GSEs, ensuring GSE compliance with fair housing laws, and providing consultation to the safety and soundness regulator on the GSEs' new activities. The cost of these regulatory responsibilities is currently in the HUD salaries and expenses account as a non-reimbursable expense.

Department of the Interior

Arctic National Wildlife Refuge lease bonuses. The Budget includes a proposal to authorize the Department of the Interior to conduct environmentally responsible oil and gas exploration and development within a small area of the Arctic National Wildlife Refuge, sometimes referred to as the "1002 Area," located in northern Alaska. The Department of the Interior estimates that recoverable oil from this area is between 5.7 billion and 16 billion barrels. The Budget assumes that the first oil and gas lease sale would be held in 2010 and would result in an estimated $7 billion in new revenues. All oil and gas revenues from the 1002 Area would be shared fifty percent with the State of Alaska, including the estimated $6 million in annual rental payments. The Federal share of revenues would be deposited in the Treasury.

Require upfront payment of coal bonus bid receipts. The Budget proposes to amend the Mineral Leasing Act to change the current practice of allowing bonus bid payments for coal lease sales to be made over a five-year period. Instead, it would require the full payment to be made in the sale year, increasing near-term revenues, but reducing revenues in later years when deferred payments under the current system would otherwise be collected. Fifty percent of coal bonus bid revenues are currently provided to the States, so the proposal would have an identical impact on state revenues.

Amend Bureau of Land Management's (BLM) Federal land sale authority. The Administration will propose legislation to amend BLM's land sale authority under the Federal Land Transaction Facilitation Act (FLTFA) to: (1) allow BLM to use updated management plans to identify areas suitable for disposal; (2) allow a portion of the receipts to be used by BLM for restoration projects; (3) return 70 percent of the net proceeds from these sales to the Treasury; and (4) cap Department of the Interior receipt retention at $60 million per year. BLM is currently limited to selling lands that had been identified for disposal in land use plans that were in effect prior to enactment of FLTFA. Use of the receipts is currently limited to the purchase of other lands for conservation purposes. The new receipts shown in this chapter reflect only a portion of the savings from this proposal; additional savings will be generated by redirecting receipts under the existing FLFTA authority to the Treasury. The amounts shown in Table 18–3 reflect receipts only and do not include related spending.

Department of Labor

Foreign labor certification fees. The 2009 Budget proposes legislation to establish cost-based user fees for new applications under the permanent and H-2B temporary foreign labor certification programs, and proposes legislation to allow the Department to retain fees for applications under the H-2A temporary labor certification program and modify the fee to cover program costs. The fees would offset the State and Federal costs of administering these programs, and once fully implemented would eliminate the need for appropriations for this purpose. Upon enactment of the fee, requests for funding in the Foreign Labor Certification administration account would be adjusted accordingly.

Department of Veterans Affairs

Medical care fees. The President's Budget includes legislation to implement new or higher fees for non-disabled higher-income veterans (PL 7/8 veterans). These veterans will pay higher drug co-pays (from $8 to $15) and new income-based annual enrollment fees that start at $250 for those with household incomes of $50,000 and rise to $750 for those with incomes of $100,000 or greater. These proposals do not pertain to veterans who are considered among VA's core mission and the highest priority—those with service disabilities, lower incomes, or special needs. The Budget also includes technical correction language to ensure that current co-pays are charged to all eligible veterans equally and not reduced if a veteran has health insurance. These proposals will result in an additional $379 million in estimated receipts for 2009.

Corps of Engineers—Civil Works

Additional recreation fees. The Corps of Engineers manages 4,300 recreation areas at 465 Corps projects (mostly lakes and reservoirs) on 12 million acres in 43 States at an annual cost of about $300 million. The Administration re-proposes a recreation modernization ("RecMod") initiative that would encourage the collection of entrance fees (not currently authorized) and the creation of public/private partnerships to improve Corps recreation facilities and services at little or no cost to the Federal Government. The Corps would implement user fees and private/public partnerships selectively, at recreation areas where fees would be appropriate. Some Corps recreation areas are isolated and remote; raising fees there might not be productive. But others are integral parts of prosperous urban communities with valuable lake-front property. Those communities may decide to help upgrade the Corps recreation areas that their citizens enjoy to provide amenities that might not otherwise be available.

Environmental Protection Agency (EPA)

Pesticide user fees. EPA presently collects fees from entities seeking to register their pesticides and from entities with existing pesticides registered for use in the United States. The Administration proposes to better cover the costs of EPA's pesticide services by increasing collections of currently authorized, but soon to expire, pesticide user fees. Furthermore, the Federal Food, Drug, and Cosmetic Act requires EPA to collect fees for the establishment and reassessment of pesticide tolerances. However, collection of these fees has been blocked through 2012. The Administration proposes to eliminate the prohibition and collect the tolerance fee in 2009. In addition, amendments to the Federal Insecticide, Fungicide, and Rodenticide Act require EPA to implement a new program to review all registered pesticides on a 15 year cycle to ensure that registrations reflect current science. EPA initiated this new Registration Review program in 2007. If EPA determines that a pesticide adversely impacts an endangered species during registration review, additional work is required to ensure adequate protections are implemented. The proposed increase in maintenance fees is designed to cover the incremental cost of this work.

Pre-manufacture notice user fees. EPA presently collects fees from chemical manufacturers seeking to bring new chemicals into commerce. These fees are authorized by the Toxic Substances Control Act and are subject to an outdated statutory cap. The Administration proposes to eliminate the cap so that EPA can recover a greater portion of the cost of the program.

Commodity Futures Trading Commission (CFTC)

Transaction fees. The CFTC is the only Federal financial regulator that does not derive its funding from the specialized entities it regulates. The Administration will propose legislation to collect a fee on the settlement of contracts on commodity futures, options on futures, and other transactions cleared by derivatives clearing organizations. The fees would be set at a level to equal the costs to the taxpayer of funding CFTC's Market Oversight and Clearing and Intermediary Oversight functions, an estimated $96 million in 2009. Similar fees are already imposed on futures exchanges to fund the programs of the futures industry's self-regulatory organization, and will help to offset the deficit impact of general taxpayer funding of the CFTC's activities.

Federal Communications Commission

Spectrum license fee authority. To continue to promote efficient spectrum use, the Administration proposes legislation to provide the Federal Communications Commission with new authority to use other economic mechanisms, such as fees, as a spectrum management tool. The Commission would be authorized to set user fees on unauctioned spectrum licenses based on spectrum-management principles. Fees would be phased in over time as part of an ongoing rulemaking process to determine the appropriate application and level for fees. Fee collections are estimated to begin in 2008, and total $4.1 billion through 2018.

Prospective ancillary terrestrial component spectrum license fees. The Administration proposes legislation to improve the management of hybrid terrestrial - satellite mobile communications spectrum licenses by setting a fee on the terrestrial authority of these integrated networks. Under current policy, these licenses are granted free of charge, though providers will compete with terrestrial wireless carriers that have purchased licenses at auction. Setting a fee on the Ancillary Terrestrial Component of Mobile Satellite Service licenses will help to ensure that the radio spectrum is put to its most highly valued use by promoting consideration of the economic value of the spectrum, provide incentive for timely and robust network development, and improve equity relative to service providers that purchase their spectrum licenses in auctions. Receipts associated with this policy are estimated to begin in 2008, and total $1.2 billion through 2018.

Extend spectrum auction authority. The Administration proposes legislation to extend indefinitely the authority of the FCC to auction spectrum licenses, which expires on September 30, 2011. The additional receipts associated with this permanent extension are estimated to total $1.4 billion through 2018.

Domestic satellite spectrum auctions. The Administration proposes legislation to ensure that spectrum licenses for predominantly domestic satellite services are assigned efficiently and effectively through competitive bidding. Services such as Direct Broadcast Satellite and Satellite Digital Audio Radio Services were assigned by auction prior to a 2005 court decision that questioned this practice on technical grounds. By clarifying through legislation that auctions of licenses for these domestic satellite services are authorized, prior policy of the Federal Communications Commission will be restored. Auction receipts associated with this clarification are estimated to begin in 2008, and total $593 million through 2018.

C. User Charge Proposals that are Governmental Receipts

Department of the Interior

Migratory bird hunting and conservation stamps. Federal migratory bird hunting and conservation stamps, commonly know as "Duck Stamps," were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps ($15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas. The land and water interests located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 16 years. The Administration proposes to increase these fees to $25 per stamp per year, effective beginning in 2009.

Department of Transportation: Federal Aviation Administration

Overflight fees. This proposed change is part of the Department of Transportation proposal discussed above for Federal Aviation Administration user fees.

Corps of Engineers—Civil Works

Inland waterways trust fund (net impact). Commercial barges that use the inland waterways now pay an excise tax of 20 cents per gallon on diesel fuel, which is deposited in the Inland Waterways Trust Fund. The tax does not raise enough revenue to cover the required 50 percent non-Federal share of the costs that the Army Corps of Engineers is spending to construct, replace, expand, and rehabilitate the locks and dams and other features that make barge transportation possible on the inland waterways. To address this imbalance between receipts and expenditures, the Administration proposes to phase out the current excise tax for inland waterways users and replace it with a more efficient user fee tied to the level of spending for inland waterways construction, replacement, expansion, and rehabilitation work.

OTHER OFFSETTING COLLECTIONS AND RECEIPTS

Table 18–4 shows the distribution of user charges and other offsetting collections and receipts from the public according to whether they are offsetting collections credited to expenditure accounts or offsetting receipts. The table shows that total offsetting collections and receipts from the public are estimated to be $330.2 billion in 2009. Of these, an estimated $183.3 billion are offsetting collections credited to expenditure accounts and an estimated $146.9 billion are deposited in offsetting receipt accounts.

Information on the user charges presented in Table 18–4 is available in Tables 18–2 and 18–3 and the discussion that accompanies those tables. Major offsetting collections deposited in expenditure accounts that are not user charges include collections by the Commodity Credit Corporation fund in the Department of Agriculture, which are related to loans; collections from States to supplement payments in the supplemental security income program; and pre-credit reform loan repayments. Major offsetting receipts that are not user charges include military assistance program sales and interest income.

Table 18–5 includes all offsetting receipts deposited in receipt accounts. These include offsetting receipts from the public (as summarized in Table 18–4) and also payments from one part of the Government to another, called intragovernmental transactions. These receipts are offset (deducted) from outlays in the Federal budget. In total, offsetting receipts are estimated to be $782.1 billion in 2009: $635.2 billion are intragovernmental transactions; and $146.9 billion are from the public. The $146.9 billion in offsetting receipts from the public consist of proprietary receipts from the public ($136.6 billion) and offsetting governmental receipts ($10.4 billion).

As noted above, offsetting collections and receipts by agency are also displayed in Table 21–1, which appears in Chapter 21, “Outlays to the Public, Gross and Net,” of this volume.

Table 18–4. OFFSETTING COLLECTIONS AND RECEIPTS FROM THE PUBLIC

(In billions of dollars)

	Actual 2007	Estimate	
		2008	2009
Offsetting collections (credited to expenditure accounts):			
User charges:			
Postal service stamps and other postal fees (off-budget)	73.9	77.0	78.3
Defense Commissary Agency	5.5	5.5	5.6
Employee contributions for employees and retired employees health benefits funds	9.4	9.9	10.6
Sale of energy:			
Tennessee Valley Authority	9.5	10.1	10.5
Bonneville Power Administration	3.3	3.2	3.5
All other user charges	36.4	41.5	48.8
Subtotal, user charges	138.0	147.2	157.2
Other collections credited to expenditure accounts:			
Commodity Credit Corporation fund	11.5	11.8	10.9
Supplemental security income (collections from the States)	4.3	4.5	4.7
Other collections	12.4	10.4	10.5
Subtotal, other collections	28.3	26.6	26.1
Subtotal, offsetting collections	166.3	173.9	183.3
Offsetting receipts (deposited in receipt accounts):			
User charges:			
Medicare premiums	50.3	54.4	57.1
Outer Continental Shelf rents, bonuses, and royalties	6.8	11.1	10.2
All other user charges	34.4	35.2	27.6
Subtotal, user charges deposited in receipt accounts	91.5	100.7	94.9
Other collections deposited in receipt accounts:			
Military assistance program sales	15.8	15.5	15.0
Interest income	16.0	16.9	15.8
All other collections deposited in receipt accounts	31.1	31.4	21.2
Subtotal, other collections deposited in receipt accounts	62.9	63.8	52.0
Subtotal, offsetting receipts	154.4	164.5	146.9
Total, offsetting collections and receipts from the public	**320.7**	**338.4**	**330.2**
Total, offsetting collections and receipts excluding off-budget	**246.7**	**261.3**	**251.8**
ADDENDUM:			
User charges that are offsetting collections and receipts [1]	229.5	248.0	252.1
Other offsetting collections and receipts from the public	91.2	90.4	78.1
Total, offsetting collections and receipts from the public	**320.7**	**338.4**	**330.2**

[1] Excludes user charges that are classified on the receipts side of the budget. For total user charges, see Table 18.1 or Table 18.2.

Table 18–5. OFFSETTING RECEIPTS BY TYPE

(In millions of dollars)

Source	2007 Actual	Estimate 2008	2009	2010	2011	2012	2013
INTRAGOVERNMENTAL TRANSACTIONS:							
On-budget receipts:							
Federal intrafund transactions:							
Distributed by agency:							
Interest from the Federal Financing Bank	737	699	858	1,110	1,299	1,544	1,721
Proposed Legislation (Non-PAYGO)	....	....	–15	–62	–143	–251	–385
Interest on Government capital in enterprises	1,957	1,455	1,529	752	775	803	835
Interest received by retirement and health benefits funds	191	165	175	186	201	220	240
General fund payments to retirement and health benefits funds:							
Employees health benefits fund	5,400	5,600	5,400	5,500	5,500	5,600	5,600
DOD retiree health care fund	19,653	17,734	19,175	20,767	22,542	24,471	26,536
Miscellaneous Federal retirement funds	345	357	423	520	483	485	468
Other	6,931	4,378	4,860	5,380	5,869	6,032	6,721
Undistributed by agency:							
Employing agency contributions							
DOD retiree health care fund	11,548	11,496	10,676	12,919	13,810	14,720	15,636
Subtotal, Federal intrafund transactions	46,762	41,884	43,081	47,072	50,336	53,624	57,372
Trust intrafund transactions:							
Distributed by agency:							
Payment to railroad retirement (from off-budget)	5,411	5,388	5,590	5,928	6,300	6,201	6,593
Other	1	1	6	6	6	6	6
Subtotal, Trust intrafund transactions	5,412	5,389	5,596	5,934	6,306	6,207	6,599
Subtotal, intrafund transactions	52,174	47,273	48,677	53,006	56,642	59,831	63,971
Interfund transactions:							
Distributed by agency:							
Federal fund payments to trust funds:							
Contributions to insurance programs:							
Military retirement fund	26,048	46,187	47,919	49,717	51,581	53,515	55,523
Supplementary medical insurance	179,183	181,032	193,263	202,304	219,366	227,564	254,325
Proposed Legislation (Non-PAYGO)	....	....	–1,804	–3,625	–5,331	–6,955	–8,615
Hospital insurance	11,355	13,273	16,244	16,933	18,225	19,677	21,937
Railroad social security equivalent benefit fund	131	140	164	174	186	203	223
Rail industry pension fund	329	306	339	352	365	379	392
Civilian supplementary retirement contributions	31,303	30,531	31,310	32,110	32,699	33,499	34,501
Unemployment insurance	756	750	786	802	933	884	848
Other contributions	850	937	895	899	863	842	829
Other payments:							
Miscellaneous payments	1,506	1,433	1,537	1,468	1,470	1,461	1,453
Proposed Legislation (Non-PAYGO)	....	....	2,710	....	....	....	....
Trust fund payments to Federal funds							
Other	18,825	1,858	1,900	1,958	2,007	2,067	2,117
Proposed Legislation (Non-PAYGO)	....	....	2,288	–411	–398	–392	–388
Undistributed by agency:							
Employer share, employee retirement (on-budget):							
Civil service retirement and disablity insurance	14,480	14,664	15,955	17,392	19,017	20,694	22,957
Proposed Legislation (Non-PAYGO)	....	....	2	8	15	23	31
CSRDI from Postal Service	2,883	3,600	3,865	4,144	4,434	4,736	5,048
Hospital insurance (contribution as employer)	2,826	2,931	3,007	3,105	3,254	3,340	3,505
Postal Service contributions to FHI	712	767	799	835	874	916	959
Military retirement fund	16,817	17,702	19,523	19,841	20,583	21,388	22,092
Other federal employees retirements	210	195	197	200	202	204	207
Interest received by on-budget trust funds	71,964	83,527	86,957	88,706	92,369	95,699	99,835
Proposed Legislation (Non-PAYGO)	....	....	122	610	1,716	3,423	5,524
Subtotal, Interfund transactions	380,178	399,833	427,978	437,522	464,430	483,167	523,303
Subtotal, On-budget receipts	432,352	447,106	476,655	490,528	521,072	542,998	587,274

Table 18–5. OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

Source	2007 Actual	Estimate 2008	2009	2010	2011	2012	2013
Off-budget receipts:							
Interfund transactions:							
Distributed by agency:							
Federal fund payments to trust funds:							
Old-age, survivors and disablitity, insurance	19,325	18,725	22,887	25,326	27,484	30,251	33,622
Undistributed by agency:							
Employer share, employee retirement (off-budget)	12,299	13,087	13,784	14,551	15,543	16,281	17,317
Interest received by off-budget trust funds	106,003	114,311	121,864	131,441	142,233	154,719	167,659
Proposed Legislation (Non-PAYGO)	....	....	....	....	....	....	–397
Proposed Legislation (PAYGO)	....	....	–14	–52	–62	–68	–67
Subtotal, Off-budget receipts	137,627	146,123	158,521	171,266	185,198	201,183	218,134
Subtotal, Intragovernmental Transactions	569,979	593,229	635,176	661,794	706,270	744,181	805,408
PROPRIETARY RECEIPTS:							
Distributed by agency:							
Interest and dividends:							
Interest on foreign loans and deferred foreign collections	190	107	107	107	107	107	107
Interest on deposits and loan accounts	1,174	1,026	866	901	928	930	930
Proposed Legislation (PAYGO)	....	....	10	10	10	10	10
Other interest	10,394	12,799	13,420	14,226	15,195	16,197	17,225
Dividends and other earnings	4,248	2,953	1,436	1,487	1,524	1,525	1,513
Subtotal, Interest and dividends	16,006	16,885	15,839	16,731	17,764	18,769	19,785
Royalties and rents:							
Royalties and rents	4,129	4,665	4,836	5,333	5,614	5,904	6,011
Proposed Legislation (PAYGO)	....	....	719	1,304	–146	–1,061	–501
Subtotal, Royalties and rents	4,129	4,665	5,555	6,637	5,468	4,843	5,510
Sale of products:							
Sale of timber and other natural land products	162	250	230	237	247	272	298
Sale of minerals and mineral products	56	159	86	89	94	96	100
Sale of power and other utilities	648	697	627	675	630	622	648
Proposed Legislation (PAYGO)	....	....	17	207	17	17	17
Other	98	121	115	102	122	119	105
Proposed Legislation (PAYGO)	....	....	–8	–8	–8	–8	–8
Subtotal, Sale of products	964	1,227	1,067	1,302	1,102	1,118	1,160
Fees and other charges for services and special benefits:							
Medicare premiums and other charges	50,273	54,401	57,098	59,054	62,167	66,199	72,035
Proposed Legislation (PAYGO)	....	....	–13	–115	–272	–339	–286
Nuclear waste displosal revenues	754	766	764	764	767	769	771
Veterans life insurance (trust funds)	139	127	118	108	99	89	77
Other services and special benefits	11,465	11,196	11,634	12,164	12,807	13,476	14,349
Proposed Legislation (Non-PAYGO)	....	....	34	34	34	34	34
Proposed Legislation (PAYGO)	....	....	692	824	826	883	904
Subtotal, Fees and other charges for services and special benefits	62,631	66,490	70,327	72,833	76,428	81,111	87,884
Sale of Government property:							
Military assistance program sales (trust funds)	15,833	15,508	15,011	12,462	12,687	12,915	13,147
Sale of land and other real property	146	298	242	387	193	200	207
Proposed Legislation (PAYGO)	....	....	–15	–13	20	20	21
Other sales of government property	204	220	232	130	131	115	115
Subtotal, Sale of Government property	16,183	16,026	15,470	12,966	13,031	13,250	13,490
Realization upon loans and investments:							
Negative and downward reestimates	12,827	12,882	1,195	891	870	833	903
Proposed Legislation (Non-PAYGO)	....	....	–462	–444	–447	–445	–443
Proposed Legislation (PAYGO)	....	....	1,591	6	1	1	1
Other realization upon loans and investments	72	63	76	76	76	76	76
Subtotal, Realization upon loans and investments	12,899	12,945	2,400	529	500	465	537

Table 18–5. OFFSETTING RECEIPTS BY TYPE—Continued

(In millions of dollars)

Source	2007 Actual	Estimate 2008	2009	2010	2011	2012	2013
Recoveries and refunds:							
Recoveries and refunds	13,104	13,698	13,854	14,396	14,424	14,920	15,369
Proposed Legislation (Non-PAYGO)	....	....	....	67	140	146	151
Proposed Legislation (PAYGO)	....	....	1	477	517	378	386
Subtotal, Recoveries and refunds	13,104	13,698	13,855	14,940	15,081	15,444	15,906
Miscellaneous receipt accounts:							
Miscellaneous receipt accounts	1,500	1,822	1,864	1,876	1,889	1,901	1,913
Proposed Legislation (PAYGO)	....	....	14	14	14	14	14
Subtotal, Miscellaneous receipt accounts	1,500	1,822	1,878	1,890	1,903	1,915	1,927
Subtotal, Distributed by agency	127,416	133,758	126,391	127,828	131,277	136,915	146,199
Undistributed by agency:							
Outer Continental Shelf escrow account	1	....	....	....	....	....	....
Outer Continental Shelf rents and bonuses	694	4,762	1,437	955	662	616	532
Outer Continental Shelf royalties	6,069	6,358	8,672	9,270	9,994	9,652	10,857
Proposed Legislation (PAYGO)	....	....	50	50	50	50	50
Artic National Wildlife Refuge—Proposed Legislation (PAYGO)	....	....	....	7,004	4	1,006	6
Sale of major assets	....	....	....	....	....	323	....
Other undistributed offsetting receipts	6,850	....	....	....	....	....	....
Subtotal, Undistributed by agency	13,614	11,120	10,159	17,279	10,710	11,647	11,445
Subtotal, Proprietary Receipts	141,030	144,878	136,550	145,107	143,987	148,562	157,644
OFFSETTING GOVERNMENTAL RECEIPTS:							
Distributed by agency:							
Regulatory Fees	6,365	7,301	7,281	7,423	7,630	7,768	7,918
Proposed Legislation (Non-PAYGO)	....	....	–67	–64	–65	–65	–70
Proposed Legislation (PAYGO)	....	....	521	521	521	521	95
Other	164	124	134	144	131	132	134
Proposed Legislation (PAYGO)	....	....	27	28	28	29	30
Subtotal, Distributed by agency	6,529	7,425	7,896	8,052	8,245	8,385	8,107
Undistributed by agency:							
Spectrum auction proceeds	6,850	11,850	2,158	100	100	....	....
Proposed Legislation (PAYGO)	....	330	310	500	500	745	790
Subtotal, Undistributed by agency	6,850	12,180	2,468	600	600	745	790
Subtotal, Offsetting Governmental Receipts	13,379	19,605	10,364	8,652	8,845	9,130	8,897
Total offsetting receipts	**724,388**	**757,712**	**782,090**	**815,553**	**857,102**	**901,873**	**971,949**

19. TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93–344) requires that a list of “tax expenditures” be included in the budget. Tax expenditures are defined in the law as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of liability.” These exceptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

Identification and measurement of tax expenditures depends importantly on the baseline tax system against which the actual tax system is compared. In general, the tax expenditure estimates presented in this chapter are patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. An alternative approach would be to pattern the tax expenditure estimates on a comprehensive consumption tax. Which approach is used is perhaps the most important factor determining what is included as a tax expenditure. For example, because a consumption tax does not tax the return to saving or investment, using a comprehensive consumption tax as the normative baseline for determining tax expenditures would exclude current tax exemptions related to retirement and education saving accounts. Similarly, business provisions that provide accelerated depreciation or expensing of investment would also be excluded as tax expenditures because investment is generally deducted immediately under a comprehensive consumption tax.

The choice of the baseline—a comprehensive income or a comprehensive consumption tax—is arbitrary when viewed from the perspective of the current so-called income tax system, which includes elements of both income and consumption taxes. According to Treasury Department analysis, roughly 35 percent of household financial assets receive consumption tax treatment because assets are held in tax-preferred accounts such as individual retirement accounts (IRAs), defined-contribution retirement plans (401(k) type plans), defined-benefit pension plans, and tax-preferred annuities and various life insurance products. The balance of household financial assets reflecting most other saving vehicles receive income tax treatment.

The ambiguities in the tax expenditure concept are reviewed in greater detail in Appendix A. This review focuses on defining tax expenditures relative to a comprehensive income tax baseline and a consumption tax baseline, and defining negative tax expenditures, i.e., provisions of current law that over-tax certain items or activities.

The tax expenditure estimates presented below differ from a comprehensive income tax in a number of other important respects. While under a comprehensive income tax all income is taxed once, the U.S. income tax system generally taxes corporate income twice, first at the corporate level through the corporate income tax and then again when the income is received by investors as dividends or capital gains. This “double tax” is accounted for in some of the tax expenditure estimates, such as those related to retirement savings, but not in the corporate tax expenditures. Indeed, the tax expenditure estimates, in large part, view the individual and corporation income taxes separately, rather than as an integrated system as appropriate under comprehensive income tax principles. Other areas of divergence from a comprehensive income tax are detailed below.

An important assumption underlying each tax expenditure estimate reported below is that other parts of the tax code remain unchanged. The estimates would be different if tax expenditures were changed simultaneously because of potential interactions among provisions. For that reason, this chapter does not present a grand total for the estimated tax expenditures.

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2007–2013 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

A discussion of performance measures and economic effects related to the assessment of the effect of tax expenditures on the achievement of program performance goals is presented in Appendix B. This section is a complement to the Government-wide performance plan required by the Government Performance and Results Act of 1993.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of December 31, 2007. Expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 2007. Due to the time required to estimate the large number of tax expenditures, the estimates are based on Mid-Session economic assumptions; exceptions are the earned income tax credit and child credit provisions, which involve outlay components and hence are updated to reflect the economic assumptions used elsewhere in the Budget.

The total revenue effects for tax expenditures for fiscal years 2007–2013 are displayed according to the Budget's functional categories in Table 19–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures. [1] For the most part, the two concepts coincide. However, items treated as tax expenditures under the normal tax baseline, but not the reference tax law baseline, are indicated by the designation "normal tax method" in the tables. The revenue effects for these items are zero using the reference tax rules. The alternative baseline concepts are discussed in detail following the tables.

Table 19–2 reports the respective portions of the total revenue effects that arise under the individual and corporate income taxes separately. The location of the estimates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the specific tax accounts through which the various provisions are cleared. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 19–3 ranks the major tax expenditures by the size of their 2009–2013 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 19–1 and 19–2 as well as to the descriptions below. Outlay Equivalent Estimates of Income Tax Expenditures, which were included in the FY2007 and prior volumes of Analytical Perspectives, are no longer included in this chapter. [2]

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 19–1, 19–2, and 19–3 do not necessarily equal the increase in Federal revenues (or the change in the budget balance) that would result from repealing these special provisions, for the following reasons.

First, eliminating a tax expenditure may have incentive effects that alter economic behavior. These incentives can affect the resulting magnitudes of the activity or of other tax provisions or Government programs. For example, if capital gains were taxed at ordinary rates, capital gain realizations would be expected to decline, potentially resulting in a decline in tax receipts. Such behavioral effects are not reflected in the estimates.

Second, tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax revenues associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the revenue costs from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the revenue cost from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force. In addition, the estimates reported in Table 19–1 are the totals of individual and corporate income tax revenue effects reported in Table 19–2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 19–1 should be regarded as approximations.

Table 19–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES

(in millions of dollars)

		Total from corporations and individuals							
		2007	2008	2009	2010	2011	2012	2013	2009–13
	National Defense								
1	Exclusion of benefits and allowances to armed forces personnel	3,220	3,350	3,480	3,620	3,780	3,930	4,090	18,900
	International affairs:								
2	Exclusion of income earned abroad by U.S. citizens	2,630	2,760	2,900	3,050	3,200	3,360	3,530	16,040
3	Exclusion of certain allowances for Federal employees abroad	840	880	920	970	1,020	1,070	1,120	5,100
4	Inventory property sales source rules exception	1,940	2,180	2,410	2,610	2,820	3,060	3,310	14,210
5	Deferral of income from controlled foreign corporations (normal tax method)	12,490	13,120	13,780	14,480	15,220	15,990	16,810	76,280
6	Deferred taxes for financial firms on certain income earned overseas	2,370	2,490	1,060	....	....	....	....	1,060
	General science, space, and technology:								
7	Expensing of research and experimentation expenditures (normal tax method)	5,190	4,720	4,990	4,470	4,320	4,400	4,420	22,600
8	Credit for increasing research activities	10,320	4,660	2,100	920	360	70	....	3,450
	Energy:								
9	Expensing of exploration and development costs, fuels	530	510	460	390	310	240	150	1,550
10	Excess of percentage over cost depletion, fuels	790	910	950	910	880	850	840	4,430

[1] These baseline concepts are thoroughly discussed in Special Analysis G of the 1985 Budget, where the former is referred to as the pre-1983 method and the latter the post-1982 method.

[2] The Administration has dropped the estimates of the outlay equivalents because they were often the same as the normal tax expenditure estimates, and the criteria for applying the concepts as to when they should differ were often judgmental and hard to apply with consistency across time and across tax expenditure items.

Table 19–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES—Continued
(in millions of dollars)

		Total from corporations and individuals							
		2007	2008	2009	2010	2011	2012	2013	2009–13
11	Alternative fuel production credit	2,920	1,310	70	80	10	10	....	170
12	Exception from passive loss limitation for working interests in oil and gas properties	30	20	20	20	30	30	30	130
13	Capital gains treatment of royalties on coal	180	190	190	200	190	140	150	870
14	Exclusion of interest on energy facility bonds	30	30	30	30	30	30	30	150
15	New technology credit	410	800	1,000	1,030	1,010	1,000	970	5,010
16	Alcohol fuel credits [1]	40	40	50	50	30	....	....	130
17	Bio-Diesel and small agri-biodiesel producer tax credits	180	200	30	20	10	10	10	80
18	Tax credit and deduction for clean-fuel burning vehicles	260	150	130	–20	–50	–60	–50	–50
19	Exclusion of utility conservation subsidies	120	120	120	110	110	110	110	560
20	Credit for holding clean renewable energy bonds	20	40	70	70	70	70	70	350
21	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	610	250	–60	–290	–490	–590	–570	–2,000
22	Credit for investment in clean coal facilities	30	50	80	130	180	245	290	925
23	Temporary 50% expensing for equipment used in the refining of liquid fuels	30	120	240	260	180	–50	–160	470
24	Natural gas distribution pipelines treated as 15–year property	60	80	90	110	120	110	100	530
25	Amortize all geological and geophysical expenditures over 2 years	50	40	30	10	10	10	10	70
26	Allowance of deduction for certain energy efficient commercial building property	190	170	90	30	....	....	....	120
27	Credit for construction of new energy efficient homes	20	30	20	10	....	....	....	30
28	Credit for energy efficiency improvements to existing homes	380	150	....	....	....	....	....	....
29	Credit for energy efficient appliances	80	....	....	....	....	....	....	....
30	30% credit for residential purchases/installations of solar and fuel cells	10	10	10	....	....	....	....	10
31	Credit for business installation of qualified fuel cells and stationary microturbine power plants	80	130	50	–10	–10	–10	–10	10
32	Partial expensing for advanced mine safety equipment	10	20	....	....	....	....	....	....
	Natural resources and environment:								
33	Expensing of exploration and development costs, nonfuel minerals	10	10	10	10	10	10	10	50
34	Excess of percentage over cost depletion, nonfuel minerals	380	400	410	440	450	460	480	2,240
35	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	370	390	410	420	430	440	450	2,150
36	Capital gains treatment of certain timber income	180	190	190	200	190	140	150	870
37	Expensing of multiperiod timber growing costs	290	290	310	310	320	340	340	1,620
38	Tax incentives for preservation of historic structures	400	430	440	470	490	520	540	2,460
39	Expensing of capital costs with respect to complying with EPA sulfur regulations	10	30	50	30	–10	....	....	70
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	10	30	40	40	40	30	30	180
	Agriculture:								
41	Expensing of certain capital outlays	110	110	110	120	120	120	120	590
42	Expensing of certain multiperiod production costs	80	80	80	80	90	90	90	430
43	Treatment of loans forgiven for solvent farmers	10	10	10	20	20	20	20	90
44	Capital gains treatment of certain income	980	1,030	1,030	1,090	1,060	760	800	4,740
45	Income averaging for farmers	80	80	80	80	80	80	80	400
46	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100
	Commerce and housing:								
	Financial institutions and insurance:								
47	Exemption of credit union income	1,310	1,380	1,450	1,530	1,610	1,690	1,780	8,060
48	Excess bad debt reserves of financial institutions	20	10	10	10	....	....	....	20
49	Exclusion of interest on life insurance savings	19,910	21,840	23,500	25,200	27,600	30,750	33,590	140,640
50	Special alternative tax on small property and casualty insurance companies	40	40	40	40	40	50	50	220
51	Tax exemption of certain insurance companies owned by tax-exempt organizations	180	190	190	200	200	210	210	1,010
52	Small life insurance company deduction	50	50	50	50	50	60	60	270
53	Exclusion of interest spread of financial institutions	520	450	480	500	630	660	690	2,960
	Housing:								
54	Exclusion of interest on owner-occupied mortgage subsidy bonds	900	960	990	1,020	1,060	1,090	1,120	5,280
55	Exclusion of interest on rental housing bonds	830	880	900	930	960	990	1,020	4,800
56	Deductibility of mortgage interest on owner-occupied homes	84,850	94,790	100,810	107,020	115,280	123,130	130,440	576,680
57	Deductibility of State and local property tax on owner-occupied homes	19,120	16,360	16,640	16,820	28,230	34,570	35,400	131,660
58	Deferral of income from installment sales	1,210	1,230	1,250	1,370	1,500	1,650	1,810	7,580
59	Capital gains exclusion on home sales	31,480	33,050	34,710	36,440	38,260	40,180	42,180	191,770
60	Exclusion of net imputed rental income	3,890	5,440	7,550	10,478	14,543	20,183	28,012	80,766
61	Exception from passive loss rules for $25,000 of rental loss	7,840	8,430	8,840	9,160	9,580	10,090	10,240	47,910
62	Credit for low-income housing investments	5,030	5,380	5,780	6,180	6,520	6,840	7,120	32,440
63	Accelerated depreciation on rental housing (normal tax method)	9,860	10,780	11,760	12,720	14,570	16,160	17,550	72,760
64	Discharge of mortgage indebtedness	....	293	239	176	....	....	....	415
	Commerce:								
65	Cancellation of indebtedness	110	90	60	40	30	30	30	190
66	Exceptions from imputed interest rules	50	50	50	50	50	50	50	250
67	Capital gains (except agriculture, timber, iron ore, and coal)	53,230	55,540	55,940	59,170	57,490	41,390	43,240	257,230
68	Capital gains exclusion of small corporation stock	270	320	340	370	490	540	590	2,330
69	Step-up basis of capital gains at death	32,600	35,900	36,750	37,950	39,450	41,010	42,632	197,792
70	Carryover basis of capital gains on gifts	650	760	800	1,270	6,340	1,500	1,600	11,510

Table 19–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES—Continued

(in millions of dollars)

		Total from corporations and individuals							
		2007	2008	2009	2010	2011	2012	2013	2009–13
71	Ordinary income treatment of loss from small business corporation stock sale	50	50	50	60	60	60	60	290
72	Accelerated depreciation of buildings other than rental housing (normal tax method)	–4,610	–4,420	–4,140	–3,850	–3,920	–3,750	–3,110	–18,770
73	Accelerated depreciation of machinery and equipment (normal tax method)	26,410	35,180	44,120	49,760	53,330	58,440	64,390	270,040
74	Expensing of certain small investments (normal tax method)	3,660	3,660	3,400	500	–950	–960	–60	1,930
75	Graduated corporation income tax rate (normal tax method)	5,400	5,220	5,290	5,510	5,660	5,840	6,090	28,390
76	Exclusion of interest on small issue bonds	350	380	390	410	420	420	440	2,080
77	Deduction for US production activities	9,800	14,020	15,330	21,110	26,030	27,710	29,090	119,270
78	Special rules for certain film and TV production	90	70	–40	–90	–60	–50	–40	–280
	Transportation:								
79	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100
80	Exclusion of reimbursed employee parking expenses	2,830	2,950	3,070	3,200	3,310	3,430	3,540	16,550
81	Exclusion for employer-provided transit passes	420	440	470	500	520	550	580	2,620
82	Tax credit for certain expenditures for maintaining railroad tracks	130	130	40	20	10	10	....	80
83	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	40	80	90	100	100	90	60	440
	Community and regional development:								
84	Investment credit for rehabilitation of structures (other than historic)	40	40	40	40	40	40	40	200
85	Exclusion of interest for airport, dock, and similar bonds	850	900	930	960	990	1,020	1,050	4,950
86	Exemption of certain mutuals' and cooperatives' income	70	70	70	70	70	70	80	360
87	Empowerment zones and renewal communities	1,450	1,550	1,760	1,170	480	660	790	4,860
88	New markets tax credit	810	990	970	860	730	590	340	3,490
89	Expensing of environmental remediation costs	300	130	–40	–20	–20	–20	–10	–110
90	Credit to holders of Gulf Tax Credit Bonds	10	10	10	10	10	10	10	50
	Education, training, employment, and social services:								
	Education:								
91	Exclusion of scholarship and fellowship income (normal tax method)	1,870	1,960	2,050	2,150	2,250	2,360	2,470	11,280
92	HOPE tax credit	3,370	3,380	3,640	3,750	4,400	4,790	4,980	21,560
93	Lifetime Learning tax credit	2,210	2,220	2,340	2,420	2,810	3,050	3,180	13,800
94	Education Individual Retirement Accounts	20	30	50	60	70	80	90	350
95	Deductibility of student-loan interest	810	820	830	840	780	530	540	3,520
96	Deduction for higher education expenses	1,450	1,180	....	....	....	....	....	....
97	State prepaid tuition plans	850	1,040	1,290	1,600	2,020	2,280	2,430	9,620
98	Exclusion of interest on student-loan bonds	440	460	480	490	510	520	540	2,540
99	Exclusion of interest on bonds for private nonprofit educational facilities	1,750	1,870	1,930	1,980	2,050	2,110	2,170	10,240
100	Credit for holders of zone academy bonds	140	160	170	170	170	160	140	810
101	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	20	20	20	20	20	20	100
102	Parental personal exemption for students age 19 or over	2,690	1,880	1,760	1,710	2,790	3,130	2,860	12,250
103	Deductibility of charitable contributions (education)	4,330	4,880	5,270	5,670	6,110	6,600	7,010	30,660
104	Exclusion of employer-provided educational assistance	630	660	690	730	40	....	....	1,460
105	Special deduction for teacher expenses	170	160	....	....	....	....	....	....
106	Discharge of student loan indebtedness	20	20	20	20	20	20	20	100
	Training, employment, and social services:								
107	Work opportunity tax credit	370	490	600	680	670	500	260	2,710
108	Welfare-to-work tax credit	80	80	50	20	10	10	....	90
109	Employer provided child care exclusion	1,170	1,340	1,400	1,470	1,480	1,520	1,600	7,470
110	Employer-provided child care credit	10	10	10	20	10	....	....	40
111	Assistance for adopted foster children	350	380	420	450	480	520	560	2,430
112	Adoption credit and exclusion	370	380	400	410	370	70	80	1,330
113	Exclusion of employee meals and lodging (other than military)	930	970	1,010	1,060	1,110	1,170	1,230	5,580
114	Child credit [2]	30,910	30,160	29,950	29,870	23,270	13,590	13,080	109,760
115	Credit for child and dependent care expenses	2,780	1,810	1,720	1,650	1,560	1,410	1,340	7,680
116	Credit for disabled access expenditures	30	30	30	30	30	30	30	150
117	Deductibility of charitable contributions, other than education and health	38,200	43,370	46,980	50,550	54,600	59,070	62,790	273,990
118	Exclusion of certain foster care payments	420	420	420	420	420	420	420	2,100
119	Exclusion of parsonage allowances	510	550	580	610	640	670	700	3,200
120	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	30	10	....	....	....	....	....	....
121	Exclusion for benefits provided to volunteer EMS and firefighters	....	23	78	82	59	....	....	219
	Health:								
122	Exclusion of employer contributions for medical insurance premiums and medical care	133,790	151,810	168,460	185,250	210,110	233,320	254,810	1,051,950
123	Self-employed medical insurance premiums	4,260	4,680	5,170	5,710	6,590	7,450	8,180	33,100
124	Medical Savings Accounts / Health Savings Accounts	760	1,140	1,480	1,590	1,620	1,540	1,450	7,680
125	Deductibility of medical expenses	4,470	5,060	5,920	6,800	9,150	10,550	11,490	43,910
126	Exclusion of interest on hospital construction bonds	2,760	2,950	3,040	3,120	3,210	3,310	3,410	16,090
127	Deductibility of charitable contributions (health)	4,310	4,890	5,300	5,700	6,160	6,660	7,080	30,900
128	Tax credit for orphan drug research	260	290	320	360	410	460	510	2,060
129	Special Blue Cross/Blue Shield deduction	620	640	650	660	670	680	680	3,340

Table 19–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES—Continued

(in millions of dollars)

		Total from corporations and individuals							
		2007	2008	2009	2010	2011	2012	2013	2009–13
130	Tax credit for health insurance purchased by certain displaced and retired individuals [3]	10	10	10	10	10	20	20	70
131	Distributions from retirement plans for premiums for health and long-term care insurance	250	240	280	310	340	380	420	1,730
	Income security:								
132	Exclusion of railroad retirement system benefits	380	370	370	360	360	350	330	1,770
133	Exclusion of workers' compensation benefits	5,740	5,830	5,920	6,010	6,110	6,200	6,300	30,540
134	Exclusion of public assistance benefits (normal tax method)	470	490	510	530	550	580	600	2,770
135	Exclusion of special benefits for disabled coal miners	50	40	40	40	40	40	40	200
136	Exclusion of military disability pensions	100	110	130	150	180	220	260	940
	Net exclusion of pension contributions and earnings:								
137	Employer plans	47,060	46,120	45,670	44,370	42,420	42,230	41,620	216,310
138	401(k) plans	46,000	49,000	51,000	55,000	68,000	74,000	77,000	325,000
139	Individual Retirement Accounts	9,500	10,800	11,700	12,200	13,400	14,900	15,200	67,400
140	Low and moderate income savers credit	760	880	900	880	870	880	860	4,390
141	Keogh plans	11,000	12,000	13,000	14,000	16,000	18,000	21,000	82,000
	Exclusion of other employee benefits:								
142	Premiums on group term life insurance	2,100	2,170	2,250	2,290	2,400	2,570	2,620	12,130
143	Premiums on accident and disability insurance	300	310	320	330	340	350	360	1,700
144	Income of trusts to finance supplementary unemployment benefits	30	30	30	40	40	50	50	210
145	Special ESOP rules	1,500	1,600	1,700	1,800	1,900	1,900	2,000	9,300
146	Additional deduction for the blind	30	30	30	30	40	40	40	180
147	Additional deduction for the elderly	1,590	1,610	1,710	1,850	2,460	2,920	3,070	12,010
148	Tax credit for the elderly and disabled	10	10	10	10	10	10	10	50
149	Deductibility of casualty losses	560	600	630	670	730	760	790	3,580
150	Earned income tax credit [4]	4,990	5,200	5,440	5,720	5,860	7,890	8,170	33,080
151	Additional exemption for housing Hurricane Katrina displaced individuals	20	....	....	....	....	....	....	....
	Social Security:								
	Exclusion of social security benefits:								
152	Social Security benefits for retired workers	17,690	18,480	18,640	19,720	20,760	22,650	24,320	106,090
153	Social Security benefits for disabled	5,050	5,540	5,810	6,150	6,590	7,110	7,560	33,220
154	Social Security benefits for dependents and survivors	3,270	3,320	3,240	3,340	3,400	3,600	3,740	17,320
	Veterans benefits and services:								
155	Exclusion of veterans death benefits and disability compensation	3,760	3,870	3,950	4,140	4,480	4,850	5,260	22,680
156	Exclusion of veterans pensions	180	180	180	180	190	220	220	990
157	Exclusion of GI bill benefits	250	280	280	290	300	330	330	1,530
158	Exclusion of interest on veterans housing bonds	30	30	30	30	30	30	30	150
	General purpose fiscal assistance:								
159	Exclusion of interest on public purpose State and local bonds	23,540	25,140	25,900	26,670	27,470	28,300	29,150	137,490
160	Deductibility of nonbusiness state and local taxes other than on owner-occupied homes	37,500	32,730	33,200	34,450	54,470	66,030	68,390	256,540
	Interest:								
161	Deferral of interest on U.S. savings bonds	1,290	1,310	1,320	1,330	1,380	1,470	1,490	6,990
	Addendum: Aid to State and local governments:								
	Deductibility of:								
	Property taxes on owner-occupied homes	19,120	16,360	16,640	16,820	28,230	34,570	35,400	131,660
	Nonbusiness State and local taxes other than on owner-occupied homes	37,500	32,730	33,200	34,450	54,470	66,030	68,390	256,540
	Exclusion of interest on State and local bonds for:								
	Public purposes	23,540	25,140	25,900	26,670	27,470	28,300	29,150	137,490
	Energy facilities	30	30	30	30	30	30	30	150
	Water, sewage, and hazardous waste disposal facilities	370	390	410	420	430	440	450	2,150
	Small-issues	350	380	390	410	420	420	440	2,080
	Owner-occupied mortgage subsidies	900	960	990	1,020	1,060	1,090	1,120	5,280
	Rental housing	830	880	900	930	960	990	1,020	4,800
	Airports, docks, and similar facilities	850	900	930	960	990	1,020	1,050	4,950
	Student loans	440	460	480	490	510	520	540	2,540
	Private nonprofit educational facilities	1,750	1,870	1,930	1,980	2,050	2,110	2,170	10,240
	Hospital construction	2,760	2,950	3,040	3,120	3,210	3,310	3,410	16,090
	Veterans' housing	30	30	30	30	30	30	30	150
	Credit for holders of zone academy bonds	140	160	170	170	170	160	140	810

[1] In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2007 $3,320; 2008 $4,020; 2009 $4,560; 2010 $4,740; 2011 $1,330; 2012 $0; 2013 $0.

[2] The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2007 $16,159; 2008 $16,321; 2009 $16,780; 2010 $16,738; 2011 $16,394; 2012 $1,554; and 2013 $1,537

[3] The figures in the table indicate the effect of the health insurance tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2007 $100; 2008 $110; 2009 $120; 2010 $130; 2011 $140; 2012 $150; and 2013 $160.

[4] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2007 $38,270;2008 $39,460; 2009 $41,020; 2010 $42,940; 2011 $43,460; 2012 $39,890; and 2013 $40,850.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Present-Value Estimates

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 19–4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming revenues that are received due to deferrals of taxes from prior years. Although such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals have a real cost to the Government. Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received. Present-value estimates, which are a useful complement to the cash-basis estimates for provisions involving deferrals, are discussed below.

Discounted present-value estimates of revenue effects are presented in Table 19–4 for certain provisions that involve tax deferrals or other long-term revenue effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the revenue effects, net of future tax payments that follow from activities undertaken during calendar year 2007 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2007 would cause a deferral of tax payments on wages in 2007 and on pension earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2007 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Table 19–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES
(in millions of dollars)

		Corporations								Individuals							
		2007	2008	2009	2010	2011	2012	2013	2009–13	2007	2008	2009	2010	2011	2012	2013	2009–13
	National Defense																
1	Exclusion of benefits and allowances to armed forces personnel									3,220	3,350	3,480	3,620	3,780	3,930	4,090	18,900
	International affairs:																
2	Exclusion of income earned abroad by U.S. citizens									2,630	2,760	2,900	3,050	3,200	3,360	3,530	16,040
3	Exclusion of certain allowances for Federal employees abroad									840	880	920	970	1020	1070	1120	5,100
4	Inventory property sales source rules exception	1,940	2,180	2,410	2,610	2,820	3,060	3,310	14,210								
5	Deferral of income from controlled foreign corporations (normal tax method)	12,490	13,120	13,780	14,480	15,220	15,990	16,810	76,280								
6	Deferred taxes for financial firms on certain income earned overseas	2,370	2,490	1,060					1,060								
	General science, space, and technology:																
7	Expensing of research and experimentation expenditures (normal tax method)	5,090	4,620	4,890	4,380	4,220	4,300	4,320	22,110	100	100	100	90	100	100	100	490
8	Credit for increasing research activities	10,260	4,610	2,100	920	360	70		3,450	60	50						
	Energy:																
9	Expensing of exploration and development costs, fuels	460	440	400	340	270	210	130	1,350	70	70	60	50	40	30	20	200
10	Excess of percentage over cost depletion, fuels	710	820	860	820	790	770	760	4,000	80	90	90	90	90	80	80	430
11	Alternative fuel production credit	2,800	1,260	70	80	10	10		170	120	50						
12	Exception from passive loss limitation for working interests in oil and gas properties									30	20	20	20	30	30	30	130
13	Capital gains treatment of royalties on coal									180	190	190	200	190	140	150	870
14	Exclusion of interest on energy facility bonds	10	10	10	10	10	10	10	50	20	20	20	20	20	20	20	100
15	New technology credit	380	730	910	940	920	910	880	4,560	30	70	90	90	90	90	90	450
16	Alcohol fuel credits [1]	30	30	40	40	20			100	10	10	10	10	10			30
17	Bio-Diesel and small agri-biodiesel producer tax credits									180	200	30	20	10	10	10	80
18	Tax credit and deduction for clean-fuel burning vehicles	30		–30	–30	–40	–50	–40	–190	230	150	160	10	–10	–10	–10	140
19	Exclusion of utility conservation subsidies									120	120	120	110	110	110	110	560
20	Credit for holding clean renewable energy bonds	10	10	20	20	20	20	20	100	10	30	50	50	50	50	50	250
21	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	610	250	–60	–290	–490	–590	–570	–2,000								
22	Credit for investment in clean coal facilities	30	50	80	130	180	245	290	925								
23	Temporary 50% expensing for equipment used in the refining of liquid fuels	30	120	240	260	180	–50	–160	470								
24	Natural gas distribution pipelines treated as 15–year property	60	80	90	110	120	110	100	530								
25	Amortize all geological and geophysical expenditures over 2 years	40	30	20	10	10	10	10	60	10	10	10					10
26	Allowance of deduction for certain energy efficient commercial building property	140	130	70	20				90	50	40	20	10				30
27	Credit for construction of new energy efficient homes	20	20	20	10				30		10						
28	Credit for energy efficiency improvements to existing homes									380	150						
29	Credit for energy efficient appliances	80															
30	30% credit for residential purchases/installations of solar and fuel cells									10	10	10					10
31	Credit for business installation of qualified fuel cells and stationary microturbine power plants	20	30	10					10	60	100	40	–10	–10	–10	–10	
32	Partial expensing for advanced mine safety equipment	10	20														
	Natural resources and environment:																
33	Expensing of exploration and development costs, nonfuel minerals	10	10	10	10	10	10	10	50								
34	Excess of percentage over cost depletion, nonfuel minerals	360	380	390	410	420	430	450	2,100	20	20	20	30	30	30	30	140
35	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	120	120	130	130	130	140	140	670	250	270	280	290	300	300	310	1,480
36	Capital gains treatment of certain timber income									180	190	190	200	190	140	150	870
37	Expensing of multiperiod timber growing costs	180	180	190	190	200	210	210	1,000	110	110	120	120	120	130	130	620
38	Tax incentives for preservation of historic structures	310	330	340	360	380	400	420	1,900	90	100	100	110	110	120	120	560
39	Expensing of capital costs with respect to complying with EPA sulfur regulations	10	30	50	30	–10			70								
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	10	20	30	30	30	20	20	130		10	10	10	10	10	10	50
	Agriculture:																
41	Expensing of certain capital outlays	10	10	10	10	10	10	10	50	100	100	100	110	110	110	110	540
42	Expensing of certain multiperiod production costs	10	10	10	10	10	10	10	50	70	70	70	70	80	80	80	380

Table 19–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES—Continued

(in millions of dollars)

		Corporations								Individuals							
		2007	2008	2009	2010	2011	2012	2013	2009–13	2007	2008	2009	2010	2011	2012	2013	2009–13
43	Treatment of loans forgiven for solvent farmers									10	10	10	20	20	20	20	90
44	Capital gains treatment of certain income									980	1030	1030	1090	1060	760	800	4,740
45	Income averaging for farmers									80	80	80	80	80	80	80	400
46	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100								
	Commerce and housing:																
	Financial institutions and insurance:																
47	Exemption of credit union income	1310	1380	1450	1530	1610	1690	1780	8,060								
48	Excess bad debt reserves of financial institutions	20	10	10	10				20								
49	Exclusion of interest on life insurance savings	2540	2740	2920	3100	3260	3480	3740	16,500	17370	19100	20580	22100	24340	27270	29850	124,140
50	Special alternative tax on small property and casualty insurance companies	40	40	40	40	40	50	50	220								
51	Tax exemption of certain insurance companies owned by tax-exempt organizations	180	190	190	200	200	210	210	1,010								
52	Small life insurance company deduction	50	50	50	50	50	60	60	270								
53	Exclusion of interest spread of financial institutions									520	450	480	500	630	660	690	2,960
	Housing:																
54	Exclusion of interest on owner-occupied mortgage subsidy bonds	280	300	310	320	330	340	350	1,650	620	660	680	700	730	750	770	3,630
55	Exclusion of interest on rental housing bonds	260	270	280	290	300	310	320	1,500	570	610	620	640	660	680	700	3,300
56	Deductibility of mortgage interest on owner-occupied homes									84,850	94,790	100,810	107,020	115,280	123,130	130,440	576,680
57	Deductibility of State and local property tax on owner-occupied homes									19,120	16,360	16,640	16,820	28,230	34,570	35,400	131,660
58	Deferral of income from installment sales	310	310	320	320	320	330	330	1,620	900	920	930	1,050	1,180	1,320	1,480	5,960
59	Capital gains exclusion on home sales									31,480	33,050	34,710	36,440	38,260	40,180	42,180	191,770
60	Exclusion of net imputed rental income									3,890	5,440	7,550	10,478	14,543	20,183	28,012	80,766
61	Exception from passive loss rules for $25,000 of rental loss									7,840	8,430	8,840	9,160	9,580	10,090	10,240	47,910
62	Credit for low-income housing investments	4,660	4,980	5,360	5,720	6,040	6,330	6,590	30,040	370	400	420	460	480	510	530	2,400
63	Accelerated depreciation on rental housing (normal tax method)	620	660	700	740	800	860	920	4,020	9,240	10,120	11,060	11,980	13,770	15,300	16,630	68,740
64	Discharge of mortgage indebtedness										293	239	176				415
	Commerce:																
65	Cancellation of indebtedness									110	90	60	40	30	30	30	190
66	Exceptions from imputed interest rules									50	50	50	50	50	50	50	250
67	Capital gains (except agriculture, timber, iron ore, and coal)									53,230	55,540	55,940	59,170	57,490	41,390	43,240	257,230
68	Capital gains exclusion of small corporation stock									270	320	340	370	490	540	590	2,330
69	Step-up basis of capital gains at death									32,600	35,900	36,750	37,950	39,450	41,010	42,632	197,792
70	Carryover basis of capital gains on gifts									650	760	800	1,270	6,340	1,500	1,600	11,510
71	Ordinary income treatment of loss from small business corporation stock sale									50	50	50	60	60	60	60	290
72	Accelerated depreciation of buildings other than rental housing (normal tax method)	–1,320	–1,240	–1,110	–990	–900	–800	–650	–4,450	–3,290	–3,180	–3,030	–2,860	–3,020	–2,950	–2,460	–14,320
73	Accelerated depreciation of machinery and equipment (normal tax method)	14,760	21,540	28,600	34,130	38,090	41,690	45,440	187,950	11,650	13,640	15,520	15,630	15,240	16,750	18,950	82,090
74	Expensing of certain small investments (normal tax method)	730	720	630	–220	–380	–380	–140	–490	2930	2940	2770	720	–570	–580	80	2,420
75	Graduated corporation income tax rate (normal tax method)	5,400	5,220	5,290	5,510	5,660	5,840	6,090	28,390								
76	Exclusion of interest on small issue bonds	110	120	120	130	130	130	140	650	240	260	270	280	290	290	300	1,430
77	Deduction for US production activities	7,380	10,710	11,690	16,030	19,340	20,310	21,320	88,690	2,420	3,310	3,640	5,080	6,690	7,400	7,770	30,580
78	Special rules for certain film and TV production	70	60	–30	–70	–50	–40	–30	–220	20	10	–10	–20	–10	–10	–10	–60
	Transportation:																
79	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100								
80	Exclusion of reimbursed employee parking expenses									2,830	2,950	3,070	3,200	3,310	3,430	3,540	16,550
81	Exclusion for employer-provided transit passes									420	440	470	500	520	550	580	2,620
82	Tax credit for certain expenditures for maintaining railroad tracks	120	120	40	20	10	10		80	10	10						
83	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	10	20	20	30	30	20	10	110	30	60	70	70	70	70	50	330
	Community and regional development:																
84	Investment credit for rehabilitation of structures (other than historic)	20	20	20	20	20	20	20	100	20	20	20	20	20	20	20	100
85	Exclusion of interest for airport, dock, and similar bonds	270	280	290	300	310	320	330	1,550	580	620	640	660	680	700	720	3,400
86	Exemption of certain mutuals' and cooperatives' income	70	70	70	70	70	70	80	360								
87	Empowerment zones and renewal communities	360	380	420	200	70	110	140	940	1,090	1,170	1,340	970	410	550	650	3,920
88	New markets tax credit	210	250	240	210	180	140	80	850	600	740	730	650	550	450	260	2,640

Table 19–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES—Continued

(in millions of dollars)

		Corporations								Individuals							
		2007	2008	2009	2010	2011	2012	2013	2009–13	2007	2008	2009	2010	2011	2012	2013	2009–13
89	Expensing of environmental remediation costs	250	110	−30	−20	−20	−20	−10	−100	50	20	−10					−10
90	Credit to holders of Gulf Tax Credit Bonds									10	10	10	10	10	10	10	50
	Education, training, employment, and social services:																
	Education:																
91	Exclusion of scholarship and fellowship income (normal tax method)									1,870	1,960	2,050	2,150	2,250	2,360	2,470	11,280
92	HOPE tax credit									3,370	3,380	3,640	3,750	4,400	4,790	4,980	21,560
93	Lifetime Learning tax credit									2,210	2,220	2,340	2,420	2,810	3,050	3,180	13,800
94	Education Individual Retirement Accounts									20	30	50	60	70	80	90	350
95	Deductibility of student-loan interest									810	820	830	840	780	530	540	3,520
96	Deduction for higher education expenses									1,450	1,180						
97	State prepaid tuition plans									850	1,040	1,290	1,600	2,020	2,280	2,430	9,620
98	Exclusion of interest on student-loan bonds	140	140	150	150	160	160	170	790	300	320	330	340	350	360	370	1,750
99	Exclusion of interest on bonds for private nonprofit educational facilities	550	580	600	620	640	660	680	3,200	1200	1290	1330	1360	1410	1450	1490	7,040
100	Credit for holders of zone academy bonds	140	160	170	170	170	160	140	810								
101	Exclusion of interest on savings bonds redeemed to finance educational expenses									20	20	20	20	20	20	20	100
102	Parental personal exemption for students age 19 or over									2,690	1,880	1,760	1,710	2,790	3,130	2,860	12,250
103	Deductibility of charitable contributions (education)	600	630	670	710	750	790	830	3,750	3,730	4,250	4,600	4,960	5,360	5,810	6,180	26,910
104	Exclusion of employer-provided educational assistance									630	660	690	730	40			1,460
105	Special deduction for teacher expenses									170	160						
106	Discharge of student loan indebtedness									20	20	20	20	20	20	20	100
	Training, employment, and social services:																
107	Work opportunity tax credit	330	440	510	560	550	410	220	2,250	40	50	90	120	120	90	40	460
108	Welfare-to-work tax credit	70	60	40	20	10	10		80	10	20	10					10
109	Employer provided child care exclusion									1170	1340	1400	1470	1480	1520	1600	7,470
110	Employer-provided child care credit	10	10	10	20	10			40								
111	Assistance for adopted foster children									350	380	420	450	480	520	560	2,430
112	Adoption credit and exclusion									370	380	400	410	370	70	80	1,330
113	Exclusion of employee meals and lodging (other than military)									930	970	1,010	1,060	1,110	1,170	1,230	5,580
114	Child credit [2]									30,910	30,160	29,950	29,870	23,270	13,590	13,080	109,760
115	Credit for child and dependent care expenses									2,780	1,810	1,720	1,650	1,560	1,410	1,340	7,680
116	Credit for disabled access expenditures	10	10	10	10	10	10	10	50	20	20	20	20	20	20	20	100
117	Deductibility of charitable contributions, other than education and health	1,370	1,440	1,510	1,580	1,650	1,720	1790	8,250	36,830	41,930	45,470	48,970	52,950	57,350	61,000	265,740
118	Exclusion of certain foster care payments									420	420	420	420	420	420	420	2,100
119	Exclusion of parsonage allowances									510	550	580	610	640	670	700	3,200
120	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	10								20	10						
121	Exclusion for benefits provided to volunteer EMS and firefighters										23	78	82	59			219
	Health:																
122	Exclusion of employer contributions for medical insurance premiums and medical care									133,790	151,810	168,460	185,250	210,110	233,320	254,810	1,051,950
123	Self-employed medical insurance premiums									4,260	4,680	5,170	5,710	6,590	7,450	8,180	33,100
124	Medical Savings Accounts / Health Savings Accounts									760	1,140	1,480	1,590	1,620	1,540	1,450	7,680
125	Deductibility of medical expenses									4,470	5,060	5,920	6,800	9,150	10,550	11,490	43,910
126	Exclusion of interest on hospital construction bonds	870	920	950	970	1,000	1,030	1,060	5,010	1,890	2,030	2,090	2,150	2,210	2,280	2,350	11,080
127	Deductibility of charitable contributions (health)	180	190	200	210	220	230	240	1,100	4,130	4,700	5,100	5,490	5,940	6,430	6,840	29,800
128	Tax credit for orphan drug research	260	290	320	360	410	460	510	2,060								
129	Special Blue Cross/Blue Shield deduction	620	640	650	660	670	680	680	3,340								
130	Tax credit for health insurance purchased by certain displaced and retired individuals [3]									10	10	10	10	10	20	20	70
131	Distributions from retirement plans for premiums for health and long-term care insurance									250	240	280	310	340	380	420	1,730
	Income security:																
132	Exclusion of railroad retirement system benefits									380	370	370	360	360	350	330	1,770
133	Exclusion of workers' compensation benefits									5,740	5,830	5,920	6,010	6,110	6,200	6,300	30,540
134	Exclusion of public assistance benefits (normal tax method)									470	490	510	530	550	580	600	2,770
135	Exclusion of special benefits for disabled coal miners									50	40	40	40	40	40	40	200
136	Exclusion of military disability pensions									100	110	130	150	180	220	260	940
	Net exclusion of pension contributions and earnings:																
137	Employer plans									47,060	46,120	45,670	44,370	42,420	42,230	41,620	216,310

Table 19–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES—Continued

(in millions of dollars)

		Corporations								Individuals							
		2007	2008	2009	2010	2011	2012	2013	2009–13	2007	2008	2009	2010	2011	2012	2013	2009–13
138	401(k) plans									46,000	49,000	51,000	55,000	68,000	74,000	77,000	325,000
139	Individual Retirement Accounts									9,500	10,800	11,700	12,200	13,400	14,900	15,200	67,400
140	Low and moderate income savers credit									760	880	900	880	870	880	860	4,390
141	Keogh plans									11,000	12,000	13,000	14,000	16,000	18,000	21,000	82,000
	Exclusion of other employee benefits:																
142	Premiums on group term life insurance									2,100	2,170	2,250	2,290	2,400	2,570	2,620	12,130
143	Premiums on accident and disability insurance									300	310	320	330	340	350	360	1,700
144	Income of trusts to finance supplementary unemployment benefits									30	30	30	40	40	50	50	210
145	Special ESOP rules	1,100	1,200	1,300	1,300	1,400	1,400	1,500	6,900	400	400	400	500	500	500	500	2,400
146	Additional deduction for the blind									30	30	30	30	40	40	40	180
147	Additional deduction for the elderly									1,590	1,610	1,710	1,850	2,460	2,920	3,070	12,010
148	Tax credit for the elderly and disabled									10	10	10	10	10	10	10	50
149	Deductibility of casualty losses									560	600	630	670	730	760	790	3,580
150	Earned income tax credit [4]									4,990	5,200	5,440	5,720	5,860	7,890	8,170	33,080
151	Additional exemption for housing Hurricane Katrina displaced individuals									20							
	Social Security:																
	Exclusion of social security benefits:																
152	Social Security benefits for retired workers									17,690	18,480	18,640	19,720	20,760	22,650	24,320	106,090
153	Social Security benefits for disabled									5,050	5,540	5,810	6,150	6,590	7,110	7,560	33,220
154	Social Security benefits for dependents and survivors									3,270	3,320	3,240	3,340	3,400	3,600	3,740	17,320
	Veterans benefits and services:																
155	Exclusion of veterans death benefits and disability compensation									3,760	3,870	3,950	4,140	4,480	4,850	5,260	22,680
156	Exclusion of veterans pensions									180	180	180	180	190	220	220	990
157	Exclusion of GI bill benefits									250	280	280	290	300	330	330	1,530
158	Exclusion of interest on veterans housing bonds	10	10	10	10	10	10	10	50	20	20	20	20	20	20	20	100
	General purpose fiscal assistance:																
159	Exclusion of interest on public purpose State and local bonds	7,410	7,840	8,080	8,320	8,570	8,830	9,090	42,890	16,130	17,300	17,820	18,350	18,900	19,470	20,060	94,600
160	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes									37,500	32,730	33,200	34,450	54,470	66,030	68,390	256,540
	Interest:																
161	Deferral of interest on U.S. savings bonds									1,290	1,310	1,320	1,330	1,380	1,470	1,490	6,990
	Addendum: Aid to State and local governments:																
	Deductibility of:																
	Property taxes on owner-occupied homes									19,120	16,360	16,640	16,820	28,230	34,570	35,400	131,660
	Nonbusiness State and local taxes other than on owner-occupied homes									37,500	32,730	33,200	34,450	54,470	66,030	68,390	256,540
	Exclusion of interest on State and local bonds for:																
	Public purposes	7,410	7,840	8,080	8,320	8,570	8,830	9,090	42,890	16,130	17,300	17,820	18,350	18,900	19,470	20,060	94,600
	Energy facilities	10	10	10	10	10	10	10	50	20	20	20	20	20	20	20	100
	Water, sewage, and hazardous waste disposal facilities	120	120	130	130	130	140	140	670	250	270	280	290	300	300	310	1,480
	Small-issues	110	120	120	130	130	130	140	650	240	260	270	280	290	290	300	1,430
	Owner-occupied mortgage subsidies	280	300	310	320	330	340	350	1,650	620	660	680	700	730	750	770	3,630
	Rental housing	260	270	280	290	300	310	320	1,500	570	610	620	640	660	680	700	3,300
	Airports, docks, and similar facilities	270	280	290	300	310	320	330	1,550	580	620	640	660	680	700	720	3,400
	Student loans	140	140	150	150	160	160	170	790	300	320	330	340	350	360	370	1,750
	Private nonprofit educational facilities	550	580	600	620	640	660	680	3,200	1,200	1,290	1,330	1,360	1,410	1,450	1,490	7,040
	Hospital construction	870	920	950	970	1000	1030	1060	5,010	1,890	2,030	2,090	2,150	2,210	2,280	2,350	11,080
	Veterans' housing	10	10	10	10	10	10	10	50	20	20	20	20	20	20	20	100
	Credit for holders of zone academy bonds	140	160	170	170	170	160	140	810								

[1] In addition, the alcohol fuel credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2007 $3,380; 2008 $4,300; 2009 $5,140; 2010 $5,940; 2011 $1,720; 2012 $0; 2013 $0.

[2] The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2007 $16,159; 2008 $16,321; 2009 $16,780; 2010 $16,738; 2011 $16,394; 2012 $1,554; and 2013 $1,537

[3] The figures in the table indicate the effect of the health insurance tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2007 $100; 2008 $110; 2009 $120; 2010 $130; 2011 $140; 2012 $150; and 2013 $160.

[4] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2007 $38,270;2008 $39,460; 2009 $41,020; 2010 $42,940; 2011 $43,460; 2012 $39,890; and 2013 $40,850.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest $10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Tax Expenditure Baselines

A tax expenditure is an exception to baseline provisions of the tax structure that usually results in a reduction in the amount of tax owed. The 1974 Congressional Budget Act, which mandated the tax expenditure budget, did not specify the baseline provisions of the tax law. As noted previously, deciding whether provisions are exceptions, therefore, is a matter of judgment. As in prior years, most of this year's tax expenditure estimates are presented using two baselines: the normal tax baseline and the reference tax law baseline. An exception is provided for the lower tax rate on dividends and capital gains on corporate shares as discussed below.

The normal tax baseline is patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. The normal tax baseline allows personal exemptions, a standard deduction, and deduction of expenses incurred in earning income. It is not limited to a particular structure of tax rates, or by a specific definition of the taxpaying unit.

In the case of income taxes, the reference tax law baseline is also patterned on a comprehensive income tax, but it is closer to existing law. Tax expenditures under the reference law baseline are generally tax expenditures under the normal tax baseline, but the reverse is not always true.

Both the normal and reference tax baselines allow several major departures from a pure comprehensive income tax. For example, under the normal and reference tax baselines:

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as tax expenditure. Accrued income would be taxed under a comprehensive income tax.
- A comprehensive income tax would generally not exclude from the tax base amounts for personal exemptions or a standard deduction, except perhaps to ease tax administration.
- A separate corporate income tax is not part of a comprehensive income tax.
- Tax rates vary by level of income. Multiple tax rates exist as a means to facilitate the redistribution of income.
- Tax rates are allowed to vary with marital status.
- Values of assets and debt are not generally adjusted for inflation. A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the price level during the time the assets or debt are held. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).

Although the reference law and normal tax baselines are generally similar, areas of difference include:

Tax rates . The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first $10 million of corporate income are thus regarded as a tax expenditure. Again, by convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

Income subject to the tax . Income subject to tax is defined as gross income less the costs of earning that income. The Federal income tax defines gross income to include: (1) consideration received in the exchange of goods and services, including labor services or property; and (2) the taxpayer's share of gross or net income earned and/or reported by another entity (such as a partnership). Under the reference tax rules, therefore, gross income does not include gifts defined as receipts of money or property that are not consideration in an exchange nor does gross income include most transfer payments which can be thought of as gifts from the Government.[3] The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference and normal tax baselines.[4]

Capital recovery . Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allowance for property is computed using estimates of economic depreciation. The latter represents a change in the calculation of the tax expenditure under normal law first made in the 2004 Budget. Appendix A provides further details on the new methodology and how it differs from the prior methodology.

Treatment of foreign income . Both the normal and reference tax baselines allow a tax credit for foreign income taxes paid (up to the amount of U.S. income taxes that would otherwise be due), which prevents double taxation of income earned abroad. Under the normal tax method, however, controlled foreign corporations (CFCs) are not regarded as entities separate from their controlling U.S. shareholders. Thus, the deferral of tax on income received by CFCs is regarded as a tax expenditure under this method. In contrast, except for tax haven activities, the reference law baseline follows current law in treating CFCs as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under this baseline, deferral of tax on CFC income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized, income.

In addition to these areas of difference, the Joint Committee on Taxation considers a somewhat broader set of tax expenditures under its normal tax baseline than is considered here.

[3] Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

[4] In the case of individuals who hold "passive" equity interests in businesses, however, the pro-rata shares of sales and expense deductions reportable in a year are limited. A passive business activity is defined to be one in which the holder of the interest, usually a partnership interest, does not actively perform managerial or other participatory functions. The taxpayer may generally report no larger deductions for a year than will reduce taxable income from such activities to zero. Deductions in excess of the limitation may be taken in subsequent years, or when the interest is liquidated. In addition, costs of earning income may be limited under the Alternative Minimum Tax.

Table 19–3. INCOME TAX EXPENDITURES RANKED BY TOTAL 2009–2013 PROJECTED REVENUE EFFECT

(in millions of dollars)

	Provision	2009	2009–13
122	Exclusion of employer contributions for medical insurance premiums and medical care	168,460	1,051,950
56	Deductibility of mortgage interest on owner-occupied homes	100,810	576,680
138	401(k) plans	51,000	325,000
117	Deductibility of charitable contributions, other than education and health	46,980	273,990
73	Accelerated depreciation of machinery and equipment (normal tax method)	44,120	270,040
67	Capital gains (except agriculture, timber, iron ore, and coal)	55,940	257,230
160	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	33,200	256,540
137	Employer plans	45,670	216,310
69	Step-up basis of capital gains at death	36,750	197,792
59	Capital gains exclusion on home sales	34,710	191,770
49	Exclusion of interest on life insurance savings	23,500	140,640
159	Exclusion of interest on public purpose State and local bonds	25,900	137,490
57	Deductibility of State and local property tax on owner-occupied homes	16,640	131,660
77	Deduction for U.S. production activities	15,330	119,270
114	Child credit	29,950	109,760
152	Social Security benefits for retired workers	18,640	106,090
141	Keogh plans	13,000	82,000
60	Exclusion of net imputed rental income	7,550	80,766
5	Deferral of income from controlled foreign corporations (normal tax method)	13,780	76,280
63	Accelerated depreciation on rental housing (normal tax method)	11,760	72,760
139	Individual Retirement Accounts	11,700	67,400
61	Exception from passive loss rules for $25,000 of rental loss	8,840	47,910
125	Deductibility of medical expenses	5,920	43,910
153	Social Security benefits for disabled	5,810	33,220
123	Self-employed medical insurance premiums	5,170	33,100
150	Earned income tax credit	5,440	33,080
62	Credit for low-income housing investments	5,780	32,440
127	Deductibility of charitable contributions (health)	5,300	30,900
103	Deductibility of charitable contributions (education)	5,270	30,660
133	Exclusion of workers' compensation benefits	5,920	30,540
75	Graduated corporation income tax rate (normal tax method)	5,290	28,390
155	Exclusion of veterans death benefits and disability compensation	3,950	22,680
7	Expensing of research and experimentation expenditures (normal tax method)	4,990	22,600
92	HOPE tax credit	3,640	21,560
1	Exclusion of benefits and allowances to armed forces personnel	3,480	18,900
154	Social Security benefits for dependents and survivors	3,240	17,320
80	Exclusion of reimbursed employee parking expenses	3,070	16,550
126	Exclusion of interest on hospital construction bonds	3,040	16,090
2	Exclusion of income earned abroad by U.S. citizens	2,900	16,040
4	Inventory property sales source rules exception	2,410	14,210
93	Lifetime Learning tax credit	2,340	13,800
102	Parental personal exemption for students age 19 or over	1,760	12,250
142	Premiums on group term life insurance	2,250	12,130
147	Additional deduction for the elderly	1,710	12,010
70	Carryover basis of capital gains on gifts	800	11,510
91	Exclusion of scholarship and fellowship income (normal tax method)	2,050	11,280
99	Exclusion of interest on bonds for private nonprofit educational facilities	1,930	10,240
97	State prepaid tuition plans	1,290	9,620
145	Special ESOP rules	1,700	9,300
47	Exemption of credit union income	1,450	8,060
115	Credit for child and dependent care expenses	1,720	7,680
124	Medical Savings Accounts / Health Savings Accounts	1,480	7,680
58	Deferral of income from installment sales	1,250	7,580
109	Employer provided child care exclusion	1,400	7,470
161	Deferral of interest on U.S. savings bonds	1,320	6,990
113	Exclusion of employee meals and lodging (other than military)	1,010	5,580
54	Exclusion of interest on owner-occupied mortgage subsidy bonds	990	5,280
3	Exclusion of certain allowances for Federal employees abroad	920	5,100
15	New technology credit	1,000	5,010
85	Exclusion of interest for airport, dock, and similar bonds	930	4,950
87	Empowerment zones, Enterprise communities, and Renewal communities	1,760	4,860
55	Exclusion of interest on rental housing bonds	900	4,800
44	Capital gains treatment of certain income	1,030	4,740
10	Excess of percentage over cost depletion, fuels	950	4,430
140	Low and moderate income savers credit	900	4,390
149	Deductibility of casualty losses	630	3,580

Table 19–3. INCOME TAX EXPENDITURES RANKED BY TOTAL 2009–2013 PROJECTED REVENUE EFFECT—Continued

(in millions of dollars)

	Provision	2009	2009–13
95	Deductibility of student-loan interest	830	3,520
88	New markets tax credit	970	3,490
8	Credit for increasing research activities	2,100	3,450
129	Special Blue Cross/Blue Shield deduction	650	3,340
119	Exclusion of parsonage allowances	580	3,200
53	Exclusion of interest spread of financial institutions	480	2,960
134	Exclusion of public assistance benefits (normal tax method)	510	2,770
107	Work opportunity tax credit	600	2,710
81	Exclusion for employer-provided transit passes	470	2,620
98	Exclusion of interest on student-loan bonds	480	2,540
38	Tax incentives for preservation of historic structures	440	2,460
111	Assistance for adopted foster children	420	2,430
68	Capital gains exclusion of small corporation stock	340	2,330
34	Excess of percentage over cost depletion, nonfuel minerals	410	2,240
35	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	410	2,150
118	Exclusion of certain foster care payments	420	2,100
76	Exclusion of interest on small issue bonds	390	2,080
128	Tax credit for orphan drug research	320	2,060
74	Expensing of certain small investments (normal tax method)	3,400	1,930
132	Exclusion of railroad retirement system benefits	370	1,770
131	Distributions from retirement plans for premiums for health and long-term care insurance	280	1,730
143	Premiums on accident and disability insurance	320	1,700
37	Expensing of multiperiod timber growing costs	310	1,620
9	Expensing of exploration and development costs, fuels	460	1,550
157	Exclusion of GI bill benefits	280	1,530
104	Exclusion of employer-provided educational assistance	690	1,460
112	Adoption credit and exclusion	400	1,330
6	Deferred taxes for financial firms on certain income earned overseas	1,060	1,060
51	Tax exemption of certain insurance companies owned by tax-exempt organizations	190	1,010
156	Exclusion of veterans pensions	180	990
136	Exclusion of military disability pensions	130	940
22	Credit for investment in clean coal facilities	80	925
13	Capital gains treatment of royalties on coal	190	870
36	Capital gains treatment of certain timber income	190	870
100	Credit for holders of zone academy bonds	170	810
41	Expensing of certain capital outlays	110	590
19	Exclusion of utility conservation subsidies	120	560
24	Natural gas distribution pipelines treated as 15–year property	90	530
23	Temporary 50% expensing for equipment used in the refining of liquid fuels	240	470
83	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	90	440
42	Expensing of certain multiperiod production costs	80	430
64	Discharge of mortgage indebtedness	239	415
45	Income averaging for farmers	80	400
86	Exemption of certain mutuals' and cooperatives' income	70	360
20	Credit for holding clean renewable energy bonds	70	350
94	Education Individual Retirement Accounts	50	350
71	Ordinary income treatment of loss from small business corporation stock sale	50	290
52	Small life insurance company deduction	50	270
66	Exceptions from imputed interest rules	50	250
50	Special alternative tax on small property and casualty insurance companies	40	220
121	Exclusion for benefits provided to volunteer EMS and firefighters	78	219
144	Income of trusts to finance supplementary unemployment benefits	30	210
84	Investment credit for rehabilitation of structures (other than historic)	40	200
135	Exclusion of special benefits for disabled coal miners	40	200
65	Cancellation of indebtedness	60	190
40	Exclusion of gain or loss on sale or exchange of certain brownfield sites	40	180
146	Additional deduction for the blind	30	180
11	Alternative fuel production credit	70	170
14	Exclusion of interest on energy facility bonds	30	150
116	Credit for disabled access expenditures	30	150
158	Exclusion of interest on veterans housing bonds	30	150
12	Exception from passive loss limitation for working interests in oil and gas properties	20	130
16	Alcohol fuel credits	50	130
26	Allowance of deduction for certain energy efficient commercial building property	90	120
46	Deferral of gain on sale of farm refiners	20	100
79	Deferral of tax on shipping companies	20	100
101	Exclusion of interest on savings bonds redeemed to finance educational expenses	20	100
106	Discharge of student loan indebtedness	20	100

Table 19–3. INCOME TAX EXPENDITURES RANKED BY TOTAL 2009–2013 PROJECTED REVENUE EFFECT—Continued

(in millions of dollars)

	Provision	2009	2009–13
43	Treatment of loans forgiven for solvent farmers	10	90
108	Welfare-to-work tax credit	50	90
17	Alcohol fuel credits	30	80
82	Tax credit for certain expenditures for maintaining railroad tracks	40	80
25	Amortize all geological and geophysical expenditures over 2 years	30	70
39	Expensing of capital costs with respect to complying with EPA sulfur regulations	50	70
130	Tax credit for health insurance purchased by certain displaced and retired individuals	10	70
33	Expensing of exploration and development costs, nonfuel minerals	10	50
90	Credit to holders of Gulf Tax Credit Bonds.	10	50
148	Tax credit for the elderly and disabled	10	50
110	Employer-provided child care credit	10	40
27	Credit for construction of new energy efficient homes	20	30
48	Excess bad debt reserves of financial institutions	10	20
30	30% credit for residential purchases/installations of solar and fuel cells	10	10
31	Credit for business installation of qualified fuel cells and stationary microturbine power plants	50	10
28	Credit for energy efficiency improvements to existing homes	....	....
29	Credit for energy efficient appliances	....	....
32	Partial expensing for advanced mine safety equipment	....	....
96	Deduction for higher education expenses	....	....
105	Special deduction for teacher expenses	....	....
120	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma	....	....
151	Additional exemption for housing Hurricane Katrina displaced individuals	....	....
18	Tax credit and deduction for clean-fuel burning vehicles	130	–50
89	Expensing of environmental remediation costs	–40	–110
78	Special rules for certain film and TV production	–40	–280
21	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	–60	–2,000
72	Accelerated depreciation of buildings other than rental housing (normal tax method)	–4,140	–18,770

Table 19–4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2007
(in millions of dollars)

	Provision	2007 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	11,460
6	Deferred taxes for financial firms on income earned overseas	2,500
7	Expensing of research and experimentation expenditures (normal tax method)	2,620
18	Credit for holding clean renewable energy bonds	360
9	Expensing of exploration and development costs—fuels	220
33	Expensing of exploration and development costs—nonfuels	10
37	Expensing of multiperiod timber growing costs	190
42	Expensing of certain multiperiod production costs—agriculture	150
41	Expensing of certain capital outlays—agriculture	200
49	Deferral of income on life insurance and annuity contracts	19,060
63	Accelerated depreciation on rental housing	12,860
72	Accelerated depreciation of buildings other than rental	3,000
73	Accelerated depreciation of machinery and equipment	39,040
74	Expensing of certain small investments (normal tax method)	680
79	Deferral of tax on shipping companies	20
100	Credit for holders of zone academy bonds	160
62	Credit for low-income housing investments	5,630
97	Deferral for state prepaid tuition plans	7,000
137	Exclusion of pension contributions—employer plans	74,120
138	Exclusion of 401(k) contributions	121,000
139	Exclusion of IRA contributions and earnings	4,300
139	Exclusion of Roth earnings and distributions	9,200
139	Exclusion of non-deductible IRA earnings	480
141	Exclusion of contributions and earnings for Keogh plans	8,600
159	Exclusion of interest on public-purpose bonds	19,930
	Exclusion of interest on non-public purpose bonds	6,980
161	Deferral of interest on U.S. savings bonds	320

Double Taxation of Corporate Profits

In a gradual transition to a more economically neutral tax system under which all income is taxed no more than once, the lower tax rates on dividends and capital gains on corporate equity under current law have not been considered tax preferences since the 2005 Budget. Thus, the difference between ordinary tax rates and the lower tax rates on dividends, introduced by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), does not give rise to a tax expenditure. Similarly, the lower capital gains tax rates applied to gains realized from the disposition of corporate equity do not give rise to a tax expenditure. As a consequence, tax expenditure estimates for the lower tax rates on capital, step-up in basis, and the inside build-up on pension assets, 401k plans, IRAs, among others, are limited to capital gains from sources other than corporate equity. Appendix A provides a greater discussion of alternative baselines.

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this chapter follow. These descriptions relate to current law as of December 31, 2007, and do not reflect proposals made elsewhere in the Budget. Legislation enacted in 2007, such as the Small Business and Work Opportunity Tax Act of 2007 and the Mortgage Forgiveness Debt Relief Act of 2007, expanded the scope of a number of provisions.

Provisions extended or expanded by the Small Business and Work Opportunity Tax Act include:

- enhanced and extended expensing
- enhanced and extended expensing for property used in highly damaged Gulf Opportunity (GO) Zone areas
- eased tax-exempt qualified mortgage bond treatment for rehabilitating GO Zone residences
- eased low-income housing credit rules for buildings in the GO Zones

Provisions in the Mortgage Forgiveness Debt Relief Act include:

- exclude discharges of principal residence acquisition indebtedness from gross income
- extension of deduction for private mortgage insurance as deductible qualified interest for three years
- exclusion from income for benefits provided to volunteer Emergency Medical Services (EMS) and firefighters

Other changes also introduced in 2007 are not listed as they have small revenue consequences.

Chapter 17 on Federal Receipts has more detailed descriptions of the provisions of these three bills.

National Defense

1. ***Benefits and allowances to armed forces personnel.***—The housing and meals provided military personnel, either in cash or in kind, as well as certain amounts of pay related to combat service, are excluded from income subject to tax.

International Affairs

2. ***Income earned abroad.***—U.S. citizens who lived abroad, worked in the private sector, and satisfied a foreign residency requirement may exclude up to $80,000 in foreign earned income from U.S. taxes. In addition, if these taxpayers receive a specific allowance for foreign housing from their employers, then they may also exclude the value of that allowance. If they do not receive a specific allowance for housing expenses, they may deduct against their U.S. taxes that portion of such expenses that exceeds one-sixth the salary of a civil servant at grade GS-14, step 1 ($79,115 in 2007).

3. ***Exclusion of certain allowances for Federal employees abroad.***—U.S. Federal civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income certain special allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses like rent, education, and the cost of travel to and from the United States.

4. ***Sales source rule exceptions.***—The worldwide income of U.S. persons is taxable by the United States and a credit for foreign taxes paid is allowed. The amount of foreign taxes that can be credited is limited to the pre-credit U.S. tax on the foreign source income. The sales source rules for inventory property allow U.S. exporters to use more foreign tax credits by allowing the exporters to attribute a larger portion of their earnings abroad than would be the case if the allocation of earnings was based on actual economic activity.

5. ***Income of U.S.-controlled foreign corporations.***—Certain active income of foreign corporations controlled by U.S. shareholders is not subject to U.S. taxation when it is earned. The income becomes taxable only when the controlling U.S. shareholders receive dividends or other distributions from their foreign stockholding. Under the normal tax method, the currently attributable foreign source pre-tax income from such a controlling interest is considered to be subject to U.S. taxation, whether or not distributed. Thus, the normal tax method considers the amount of controlled foreign corporation income not yet distributed to a U.S. shareholder as tax-deferred income.

6. ***Exceptions under subpart F for active financing income.***—Financial firms can defer taxes on income earned overseas in an active business. Taxes on income earned through December 31, 2006 can be deferred.

General Science, Space, and Technology

7. ***Expensing R&E expenditures.***—Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

8. ***R&E credit.***—The research and experimentation (R&E) credit is 20 percent of qualified research expenditures in excess of a base amount. The base amount is generally determined by multiplying a “fixed-base percentage” by the average amount of the company’s gross receipts for the prior four years. The taxpayer’s fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers may also elect an alternative incremental credit regime. Under the alternative incremental credit regime the taxpayer is assigned a three-tiered fixed-base percentage that is lower than the fixed-base percentage that would otherwise apply, and the credit rate is reduced (the rates range from 2.65 percent to 3.75 percent). Beginning in 2007, the rates for the alternative incremental credit increases to a range of 3 percent to 5 percent. An alternative simplified credit is also allowed which is equal to 12 percent of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. A 20-percent credit with a separate threshold is provided for a taxpayer’s payments to universities for basic research. A 20-percent “flat” credit with no threshold base amount is available for energy research expenditures paid to certain research consortia. The credit applies to research conducted before January 1, 2008 and extends to research conducted in Puerto Rico and the U.S. possessions.

Energy

9. ***Exploration and development costs.***—For successful investments in domestic oil and gas wells, intangible drilling costs (e.g., wages, the costs of using machinery for grading and drilling, the cost of unsalvageable materials used in constructing wells) may be expensed rather than amortized over the productive life of the property. Integrated oil companies may deduct only 70 percent of such costs and must amortize the remaining 30 percent over five years. The same rule applies to the exploration and development costs of surface stripping and the construction of shafts and tunnels for other fuel minerals.

10. ***Percentage depletion.***—Independent fuel mineral producers and royalty owners are generally allowed to take percentage depletion deductions rather than cost depletion on limited quantities of output. Under cost depletion, outlays are deducted over the productive life of the property based on the fraction of the resource extracted. Under percentage depletion, taxpayers deduct a percentage of gross income from mineral production at rates of 22 percent for uranium; 15 percent for oil, gas and oil shale; and 10 percent for coal. The

deduction is limited to 50 percent of net income from the property, except for oil and gas where the deduction can be 100 percent of net property income. Production from geothermal deposits is eligible for percentage depletion at 65 percent of net income, but with no limit on output and no limitation with respect to qualified producers. Unlike depreciation or cost depletion, percentage depletion deductions can exceed the cost of the investment.

11. ***Alternative fuel production credit.***—A credit of $3 per oil-equivalent barrel of production (in 1979 dollars) is provided for gas produced from biomass and liquid, gaseous, or solid synthetic fuels produced from coal. The credit is generally available if the price of oil stays below $29.50 (in 1979 dollars). The credit applies only to fuel (1) produced at a facility placed in service before July 1, 1998, and (2) sold before January 1, 2008. A credit is also available for the production of coke or coke gas from a qualified facility. Qualified facilities must have been placed in service before January 1, 1993, or after June 30, 1998, and before January 1, 2010.

12. ***Oil and gas exception to passive loss limitation.***—Owners of working interests in oil and gas properties are exempt from the "passive income" limitations. As a result, the working interest-holder, who manages on behalf of himself and all other owners the development of wells and incurs all the costs of their operation, may aggregate negative taxable income from such interests with his income from all other sources.

13. ***Capital gains treatment of royalties on coal.***—Sales of certain coal under royalty contracts can be treated as capital gains rather than ordinary income.

14. ***Energy facility bonds.***—Interest earned on State and local bonds used to finance construction of certain energy facilities is taxexempt. These bonds are generally subject to the State private-activity bond annual volume cap.

15. ***New technology, refined coal, and Indian coal credits.***—A credit is provided equal to 10 percent of the basis of solar energy property (30 percent for purchases beginning in 2006 through 2008) and 10 percent of the basis of geothermal energy property placed in service during the taxable year. A credit is also available for certain electricity produced from wind energy, biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, or qualified hydropower and sold to an unrelated party. The credit rate in 2007 is 2.0 cents per kilowatt hour (1.0 cents per kilowatt hour for open-loop biomass, small irrigation power, municipal solid waste and qualified hydropower) and the rate is indexed in subsequent years. Another credit is available for refined coal. The credit rate in 2007 is $5.877 per ton and the rate is indexed in subsequent years. An additional credit is available for the production of Indian coal. The value of the credit is $1.544 per ton in 2007 and indexed for inflation in subsequent years.

16. ***Alcohol fuel credits.***—An income tax credit is provided for ethanol that is derived from renewable sources and used as fuel. The credit equals 51 cents per gallon through 2010. In lieu of the alcohol mixture credit, the taxpayer may claim a refundable excise tax credit. In addition, small ethanol producers are eligible for a separate 10 cents per gallon credit.

17. ***Bio-Diesel tax credit.***—An income tax credit of $0.50, similar to Ethanol benefits, is available for each gallon of biodiesel used or sold. Biodiesel derived from virgin sources (agri-biodiesel) receives an increased credit of $1.00 per gallon. The Energy Tax Incentives Act of 2005 extends the income tax credit, excise tax credit, and payment provisions through December 31, 2008 and adds a credit for small agri-biodiesel producers. The conference agreement also creates a similar income tax credit, excise tax credit and payment system for renewable diesel, however there is no credit for small producers of renewable diesel. Renewable diesel means diesel fuel derived form biomass using thermal depolymerization process.

18. ***Credit and deduction for clean-fuel vehicles and property and alternative motor vehicle credits.***—A tax credit of 10 percent (not to exceed $4,000) is provided for purchasers of electric vehicles. The credit is reduced by 75 percent for vehicles placed in service in 2006 and is not available for vehicles placed in service after December 31, 2006. No deduction is available to taxpayers for vehicles placed in service after December 31, 2005. The deduction for clean-fuel property is available for costs incurred before January 1, 2007. A taxpayer may claim a 30 percent credit for the cost of installing clean-fuel vehicle refueling property for property placed in service after December 31, 2005 and before January 1, 2008. The taxpayer may not claim deductions with respect to property for which the credit is claimed. A tax credit is also available for the purchase of hybrid vehicles, fuel cell vehicles, alternative fuel vehicles and advanced lean burn vehicles. The provision applies to vehicles placed in service after December 31, 2005, in the case of qualified fuel cell motor vehicles, before January 1, 2015; in the case of qualified hybrid motor vehicles that are automobiles and light trucks and in the case of advanced lean-burn technology vehicles, before January 1, 2011; in the case of qualified hybrid motor vehicles that are medium and heavy trucks, before January 1, 2010; and in the case of qualified alternative fuel motor vehicles, before January 1, 2011. The credit ranges from $250 to $40,000 per vehicle depending upon the vehicle's energy efficiency, weight and other characteristics. The number of hybrid and lean burn vehicles eligible for the credit phases out when a manufacturer has sold 60,000 vehicles.

19. ***Exclusion of utility conservation subsidies.***—Non-business customers can exclude from gross income subsidies received from public utilities for expenditures on energy conservation measures.

20. ***Credit to holders of clean renewable energy bonds.***—This provision provides for up to $1.2 billion in aggregate issuance of Clean Renewable Energy Bonds (CREBs) through December 31, 2008. Taxpayers

holding CREBs on a credit allowance date are entitled to a tax credit in lieu of interest.

21. ***Deferral of gain from dispositions of transmission property to implement FERC restructuring policy.***—Utilities that sell their transmission assets to a FERC-approved independent transmission company are allowed a longer recognition period for their gains from sale. Rather than paying tax on any gain from the sale in the year that the sale is completed, utilities will have 8 years to pay the tax on any gain from the sale. The rule expires at the end of 2007.

22. ***Credit for investment in clean coal facilities.***—Three investment tax credits for clean coal facilities are available: a 15 percent and 20 percent investment tax credit for clean coal facilities producing electricity; and a 20 percent credit for industrial gasification projects. Integrated gasification combined cycle (IGCC) projects get a 20 percent investment tax credit and other advanced coal-based projects that produce electricity get a 15 percent credit. The Secretary of the Treasury may allocate up to $800 million for IGCC projects and up to $500 million for other advanced coal-based technologies and up to $350 million for industrial gasification. These credits are effective for investments made after August 8, 2005.

23. ***Temporary 50 percent expensing for equipment used in the refining of liquid fuels.***—Taxpayers may expense 50 percent of the cost of refinery investments which increase the capacity of an existing refinery by at least 5 percent or increase the throughput of qualified fuels by at least 25 percent. Qualified fuels include oil from shale and tar sands. Investments must be placed in service before January 1, 2012.

24. ***Natural gas distribution pipelines treated as 15-year property.***—The depreciation period is shortened to 15 years for any gas distribution lines the original use of which occurred after April 11, 2004 and before January 1, 2011. The provision does not apply to any property which the taxpayer or a related party had entered into a binding contract for the construction thereof or self-constructed on or before April 11, 2005.

25. ***Amortize all geological and geophysical expenditures over 2 years.***—Geological and geophysical amounts incurred in connection with oil and gas exploration in the United States may be amortized over two years for non-integrated oil companies and seven years for certain major integrated oil companies. In the case of abandoned property, any remaining basis may no longer be recovered in the year of abandonment of a property as all basis is recovered over the two-year amortization period.

26. ***Allowance of deduction for certain energy efficient commercial building property.***—A deduction for energy efficient commercial buildings that reduce annual energy and power consumption by 50 percent compared to the American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE) standard is allowed. The deduction generally is limited to $1.80 per square foot. The provision is effective for property placed in service after December 31, 2005 and prior to January 1, 2008.

27. ***Credit for construction of new energy efficient homes.***—A credit is available to eligible contractors for construction of a qualified new energy-efficient home. The maximum credit is $2,000. The credit applies to homes whose construction is substantially completed after December 31, 2005 and which are purchased after December 31, 2005 and prior to January 1, 2009.

28. ***Credit for energy efficiency improvements to existing homes.***—A 10 percent investment tax credit up to a maximum credit of $500 per dwelling is available for expenditures on insulation, exterior windows and doors that improve the energy efficiency of homes and meet certain standards. Credits for purchases of advanced main air circulating fans, natural gas, propane, or oil furnaces or hot water boilers, and other qualified energy efficient property are also available. Credit applies to property placed in service after December 31, 2005 and prior to January 1, 2009.

29. ***Credit for energy efficient appliances.***—Tax credits for the manufacture of efficient dishwashers, clothes washers, and refrigerators are available. Credits vary depending on the efficiency of the unit. The provision is effective for appliances manufactured in 2006 and 2007.

30. ***Credit for residential purchases/installations of solar and fuel cell property.***—A credit, equal to 30 percent of qualifying expenditures, for purchase for qualified photovoltaic property and solar water heating property is available. The maximum credit for each of these types of property is $2,000 per tax year. A 30 percent credit for the purchase of qualified fuel cell power plants up to $500 for each 0.5 kilowatt of capacity is also allowed. The credit applies to property placed in service after December 31, 2005 and prior to January 1, 2009.

31. ***Credit for business installation of qualified fuel cells and stationary microturbine power plants.***—A 30 percent business energy credit for purchase of qualified fuel cell power plants for businesses (up to $500 for each 0.5 kilowatt of capacity) and a 10 percent credit for purchase of qualifying stationary microturbine power plants (up to a maximum of $200 for each kilowatt of capacity) are allowed. The credit applies to property placed in service prior to January 1, 2009.

32. ***Expensing for advanced mine safety equipment.***—The cost of qualified mine safety equipment may be expensed rather than recovered through depreciation (subject to certain limitations). Provision limited to property placed in service on or before December 31, 2008.

Natural Resources and Environment

33. ***Exploration and development costs.***—Certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

34. ***Percentage depletion.***—Most nonfuel mineral extractors may use percentage depletion rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulfur to 5 percent for sand and gravel.

35. ***Sewage, water, solid and hazardous waste facility bonds.***—Interest earned on State and local bonds used to finance the construction of sewage, water, or hazardous waste facilities is tax-exempt. These bonds are generally subject to the State private-activity bond annual volume cap.

36. ***Capital gains treatment of certain timber.***—Certain timber sales can be treated as a capital gain rather than ordinary income.

37. ***Expensing multi-period timber growing costs.***—Most of the production costs of growing timber may be expensed rather than capitalized and deducted when the timber is sold. In most other industries, these costs are capitalized under the uniform capitalization rules.

38. ***Historic preservation.***—Expenditures to preserve and restore historic structures qualify for a 20-percent investment tax credit, but the depreciable basis must be reduced by the full amount of the credit taken.

39. ***Expensing of capital costs with respect to complying with EPA sulfur regulations.***—Small refiners are allowed to deduct 75 percent of qualified capital costs incurred by the taxpayer during the taxable year.

40. ***Exclusion of gain or loss on sale or exchange of certain brownfield sites.***—In general, an organization that is otherwise exempt from federal income tax is taxed on income from any trade or business regularly carried on by the organization that is not substantially related to the organization's exempt purpose. The AJCA of 2004 created a special exclusion from unrelated business taxable income of the gain or loss from the sale or exchange of certain qualifying brownfield properties. The exclusion applies regardless of whether the property is debt-financed. In order to qualify, a minimum amount of remediation expenditures must be incurred by the organization.

Agriculture

41. ***Expensing certain capital outlays.***—Farmers, except for certain agricultural corporations and partnerships, are allowed to expense certain expenditures for feed and fertilizer, as well as for soil and water conservation measures. Expensing is allowed, even though these expenditures are for inventories held beyond the end of the year, or for capital improvements that would otherwise be capitalized.

42. ***Expensing multi-period livestock and crop production costs.***—The production of livestock and crops with a production period of less than two years is exempt from the uniform cost capitalization rules. Farmers establishing orchards, constructing farm facilities for their own use, or producing any goods for sale with a production period of two years or more may elect not to capitalize costs. If they do, they must apply straight-line depreciation to all depreciable property they use in farming.

43. ***Loans forgiven solvent farmers.***—Farmers are forgiven the tax liability on certain forgiven debt. Normally, debtors must include the amount of loan forgiveness as income or reduce their recoverable basis in the property to which the loan relates. If the debtor elects to reduce basis and the amount of forgiveness exceeds the basis in the property, the excess forgiveness is taxable. For insolvent (bankrupt) debtors, however, the amount of loan forgiveness reduces carryover losses, then unused credits, and then basis; any remainder of the forgiven debt is excluded from tax. Farmers with forgiven debt are considered insolvent for tax purposes, and thus qualify for income tax forgiveness.

44. ***Capital gains treatment of certain income.***—Certain agricultural income, such as unharvested crops, can be treated as capital gains rather than ordinary income.

45. ***Income averaging for farmers.***—Taxpayers can lower their tax liability by averaging, over the prior three-year period, their taxable income from farming and fishing.

46. ***Deferral of gain on sales of farm refiners.***—A taxpayer who sells stock in a farm refiner to a farmers' cooperative can defer recognition of gain if the taxpayer reinvests the proceeds in qualified replacement property.

Commerce and Housing

This category includes a number of tax expenditure provisions that also affect economic activity in other functional categories. For example, provisions related to investment, such as accelerated depreciation, could be classified under the energy, natural resources and environment, agriculture, or transportation categories.

47. ***Credit union income.***—The earnings of credit unions not distributed to members as interest or dividends are exempt from income tax.

48. ***Bad debt reserves.***—Small (less than $500 million in assets) commercial banks, mutual savings banks, and savings and loan associations may deduct additions to bad debt reserves in excess of actually experienced losses.

49. ***Deferral of income on life insurance and annuity contracts.***—Favorable tax treatment is provided for investment income within qualified life insurance and annuity contracts. Investment income earned on qualified life insurance contracts held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is tax-deferred, if not tax-exempt. Investment income earned on annuities is treated less favorably than income earned on life insurance contracts, but it benefits from tax deferral without annual contribution or income limits generally applicable to other tax-favored retirement income plans.

50. ***Small property and casualty insurance companies.***—For taxable years beginning before January 1, 2004, insurance companies that were not life insur-

ance companies and which had annual net premiums of less than $350,000 were exempt from tax; those with $350,000 to $1.2 million of annual net premiums could elect to pay tax only on the income earned by their taxable investment portfolio. For taxable years beginning after December 31, 2003, stock non-life insurance companies are generally exempt from tax if their gross receipts for the taxable year do not exceed $600,00 and more than 50 percent of such gross receipts consists of premiums. Mutual non-life insurance companies are generally tax-exempt if their annual gross receipts do not exceed $150,000 and more than 35 percent of gross receipts consist of premiums. Also, for taxable years beginning after December 31, 2003, non-life insurance companies with no more than $1.2 million of annual net premiums may elect to pay tax only on their taxable investment income.

51. ***Insurance companies owned by exempt organizations.***—Generally, the income generated by life and property and casualty insurance companies is subject to tax, albeit by special rules. Insurance operations conducted by such exempt organizations as fraternal societies and voluntary employee benefit associations, however, are exempt from tax.

52. ***Small life insurance company deduction.***—Small life insurance companies (gross assets of less than $500 million) can deduct 60 percent of the first $3 million of otherwise taxable income. The deduction phases out for otherwise taxable income between $3 million and $15 million.

53. ***Exclusion of interest spread of financial institutions.***—Consumers and non-profit organizations pay for some deposit-linked services, such as check cashing, by accepting a below-market interest rate on their demand deposits. If they received a market rate of interest on those deposits and paid explicit fees for the associated services, they would pay taxes on the full market rate and (unlike businesses) could not deduct the fees. The government thus foregoes tax on the difference between the risk-free market interest rate and below-market interest rates on demand deposits, which under competitive conditions should equal the value added of deposit services.

54. ***Mortgage housing bonds.***—Interest earned on State and local bonds used to finance homes purchased by first-time, low-to-moderate-income buyers is tax-exempt. The amount of State and local tax-exempt bonds that can be issued to finance these and other private activity is limited. The combined volume cap for private activity bonds, including mortgage housing bonds, rental housing bonds, student loan bonds, and industrial development bonds was $62.50 per capita ($187.5 million minimum) per State in 2001, and $75 per capita ($225 million minimum) in 2002. The Community Renewal Tax Relief Act of 2000 accelerated the scheduled increase in the state volume cap and indexed the cap for inflation, beginning in 2003. States may issue mortgage credit certificates (MCCs) in lieu of mortgage revenue bonds. MCCs entitle home buyers to income tax credits for a specified percentage of interest on qualified mortgages. The total amount of MCCs issued by a State cannot exceed 25 percent of its annual ceiling for mortgage-revenue bonds.

55. ***Rental housing bonds.***—Interest earned on State and local government bonds used to finance multifamily rental housing projects is tax-exempt. At least 20 percent (15 percent in targeted areas) of the units must be reserved for families whose income does not exceed 50 percent of the area's median income; or 40 percent for families with incomes of no more than 60 percent of the area median income. Other tax-exempt bonds for multifamily rental projects are generally issued with the requirement that all tenants must be low or moderate income families. Rental housing bonds are subject to the volume cap discussed in the mortgage housing bond section above.

56. ***Interest on owner-occupied homes.***—Owner-occupants of homes may deduct mortgage interest on their primary and secondary residences as itemized nonbusiness deductions. In general, the mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence, and is also limited to no more than $1 million. Interest on up to $100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the debt does not exceed the fair market value of the residence. Mortgage interest deductions on personal residences are tax expenditures because the value of owner-occupied housing services is not included in a taxpayer's taxable income.

57. ***Taxes on owner-occupied homes.***—Owner-occupants of homes may deduct property taxes on their primary and secondary residences even though they are not required to report the value of owner-occupied housing services as gross income.

58. ***Installment sales.***—Dealers in real and personal property (i.e., sellers who regularly hold property for sale or resale) cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers (i.e., sellers of real property used in their business) are required to pay interest on deferred taxes attributable to their total installment obligations in excess of $5 million. Only properties with sales prices exceeding $150,000 are includable in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with total installment obligations of less than $5 million is, therefore, a tax expenditure.

59. ***Capital gains exclusion on home sales.***—A homeowner can exclude from tax up to $500,000 ($250,000 for singles) of the capital gains from the sale of a principal residence. The exclusion may not be used more than once every two years.

60. ***Imputed net rental income on owner-occupied housing.***—The implicit rental value of home ownership, net of expenses such as mortgage interest and depreciation, is excluded from income. Appendix A provides a fuller explanation of this new addition to the tax expenditure budget.

61. ***Passive loss real estate exemption.***—In general, passive losses may not offset income from other sources. Losses up to $25,000 attributable to certain rental real estate activity, however, are exempt from this rule.

62. ***Low-income housing credit.***—Taxpayers who invest in certain low-income housing are eligible for a tax credit. The credit rate is set so that the present value of the credit is equal to 70 percent for new construction and 30 percent for (1) housing receiving other Federal benefits (such as tax-exempt bond financing), or (2) substantially rehabilitated existing housing. The credit is allowed in equal amounts over 10 years. State agencies determine who receives the credit; States are limited in the amount of credit they may authorize annually. The Community Renewal Tax Relief Act of 2000 increased the per-resident limit to $1.50 in 2001 and to $1.75 in 2002 and indexed the limit for inflation, beginning in 2003. The Act also created a $2 million minimum annual cap for small States beginning in 2002; the cap is indexed for inflation, beginning in 2003.

63. ***Accelerated depreciation of rental property.***— The tax depreciation allowance provisions are part of the reference law rules, and thus do not give rise to tax expenditures under the reference method. Under the normal tax method, however, economic depreciation is assumed. This calculation is described in more detail in Appendix A.

64. ***Discharge of mortgage indebtedness.***—This provision excludes from the income of a taxpayer any discharge of indebtedness of a qualified principal residence. Provision sunsets on December 31, 2009.

65. ***Cancellation of indebtedness.***—Individuals are not required to report the cancellation of certain indebtedness as current income. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

66. ***Imputed interest rules.***—Holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when paid. In addition, the amount of interest accrued is determined by the actual price paid, not by the stated principal and interest stipulated in the instrument. In general, any debt associated with the sale of property worth less than $250,000 is excepted from the general interest accounting rules. This general $250,000 exception is not a tax expenditure under reference law but is under normal law. Exceptions above $250,000 are a tax expenditure under reference law; these exceptions include the following: (1) sales of personal residences worth more than $250,000, and (2) sales of farms and small businesses worth between $250,000 and $1 million.

67. ***Capital gains (other than agriculture, timber, iron ore, and coal***).—Capital gains on assets held for more than 1 year are taxed at a lower rate than ordinary income. Under the revised reference law baseline used for the 2005 Budget, the lower rate on capital gains is considered a tax expenditure under the reference law method, but only for capital gains that have not been previously taxed under the corporate income tax. As discussed above, this treatment partially adjusts for the double tax on corporate income and is more consistent with a comprehensive income tax base.

The Jobs Growth Tax Relief Reconciliation Act (JGTRRA) lowered the top tax rate on capital gains from 20 percent to 15 percent, which is effective through 2010. For taxpayers in the 15 percent or below ordinary tax bracket, JGTRRA lowered the tax rate on capital gains to 5 percent (0 percent in 2008). These lower rates apply to assets held for more than one year.

Previously, for assets acquired after December 31, 2000, the top capital gains tax rate for assets held for more than 5 years was 18 percent. Since January 1, 2001, taxpayers may mark-to-market existing assets to start the 5-year holding period. Losses from the mark-to-market are not recognized. For assets held for more than 1 year by taxpayers in the 15-percent ordinary tax bracket, the top capital gains tax rate was 10 percent. After December 31, 2000, the top capital gains tax rate for assets held by these taxpayers for more than 5 years was 8 percent.

68. ***Capital gains exclusion for small business stock.***—An exclusion of 50 percent is provided for capital gains from qualified small business stock held by individuals for more than 5 years. A qualified small business is a corporation whose gross assets do not exceed $50 million as of the date of issuance of the stock.

69. ***Step-up in basis of capital gains at death.***— Capital gains on assets held at the owner's death are not subject to capital gains taxes. The cost basis of the appreciated assets is adjusted upward to the market value at the owner's date of death. After repeal of the estate tax for 2010 under the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, the basis for property acquired from a decedent will be the lesser of fair market value or the decedent's basis. Certain types of additions to basis will be allowed so that assets in most estates that are not currently subject to estate tax will not be subject to capital gains tax in the hands of the heirs.

70. ***Carryover basis of capital gains on gifts.***— When a gift is made, the donor's basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries-over to the donee. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

71. ***Ordinary income treatment of losses from sale of small business corporate stock shares.***— Up to $100,000 in losses from the sale of small business corporate stock (capitalization less than $1 million) may be treated as ordinary losses. Such losses would, thus, not be subject to the $3,000 annual capital loss write-off limit.

72. ***Accelerated depreciation of non-rental-housing buildings.***—The tax depreciation allowance provisions are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, economic depreciation is assumed. This calculation is described in more detail in Appendix A.

73. ***Accelerated depreciation of machinery and equipment.***—The tax depreciation allowance provisions are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under the normal tax baseline, this tax depreciation allowance is measured relative to economic depreciation. This calculation is described in more detail in Appendix A.

74. ***Expensing of certain small investments.***—As of 2003, under prior law, qualifying investments in tangible property up to $25,000 could have been expensed rather than depreciated over time. The amount eligible for expensing was decreased to the extent the taxpayer's qualifying investment during the year exceeded $200,000. For 2003, however, the expensing limit was temporarily increased to $100,000, the phase-out limit was temporarily increased to $400,000, and computer software became temporarily eligible for expensing treatment. For 2004 through 2009, these higher limits are indexed for inflation, and computer software continues to be an eligible investment. In all years, the amount expensed cannot exceed the taxpayer's taxable income for the year. The prior rules will apply for taxable years beginning after 2009.

75. ***Graduated corporation income tax rate schedule.***—The corporate income tax schedule is graduated, with rates of 15 percent on the first $50,000 of taxable income, 25 percent on the next $25,000, and 34 percent on the next $9.925 million. Compared with a flat 34-percent rate, the lower rates provide an $11,750 reduction in tax liability for corporations with taxable income of $75,000. This benefit is recaptured for corporations with taxable incomes exceeding $100,000 by a 5-percent additional tax on corporate incomes in excess of $100,000 but less than $335,000.

The corporate tax rate is 35 percent on income over $10 million. Compared with a flat 35-percent tax rate, the 34-percent rate provides a $100,000 reduction in tax liability for corporations with taxable incomes of $10 million. This benefit is recaptured for corporations with taxable incomes exceeding $15 million by a 3-percent additional tax on income over $15 million but less than $18.33 million. Because the corporate rate schedule is part of reference tax law, it is not considered a tax expenditure under the reference method. A flat corporation income tax rate is taken as the baseline under the normal tax method; therefore the lower rate is considered a tax expenditure under this concept.

76. ***Small issue industrial development bonds.***—Interest earned on small issue industrial development bonds (IDBs) issued by State and local governments to finance manufacturing facilities is tax exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

77. ***Deduction for U.S. production activities.***—This provision was introduced by the AJCA in 2004 and allows for a deduction equal to a portion of taxable income attributable to domestic production. For taxable years beginning in 2004, 2005, 2006, 2007, and 2008, the amount of the deduction is 5, 5, 5, 6, and 7 percent, respectively. For taxable years beginning after 2008, the amount of the deduction is 9 percent.

78. ***Special rules for certain film and TV production.***—Taxpayers may deduct up to $15 million ($15 million in certain distressed areas) per production expenditures in the year incurred. Excess expenditures may be deducted over three years using the straight line method. This provision was introduced by the AJCA enacted in 2004. Under prior law, production expenses were depreciated.

Transportation

79. ***Deferral of tax on U.S. shipping companies.***—Certain companies that operate U.S. flag vessels can defer income taxes on that portion of their income used for shipping purposes, primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments. Once indefinite, the deferral has been limited to 25 years since January 1, 1987.

80. ***Exclusion of employee parking expenses.***—Employee parking expenses that are paid for by the employer or that are received in lieu of wages are excludable from the income of the employee. In 2007, the maximum amount of the parking exclusion is $215 (indexed) per month. The tax expenditure estimate does not include parking at facilities owned by the employer.

81. ***Exclusion of employee transit pass expenses.***—Transit passes, tokens, fare cards, and vanpool expenses paid for by an employer or provided in lieu of wages to defray an employee's commuting costs are excludable from the employee's income. In 2007, the maximum amount of the exclusion is $110 (indexed) per month.

82. ***Tax credit for certain expenditures for maintaining railroad tracks.***—Eligible taxpayers may claim a credit equal to the lesser of 50 percent of maintenance expenditures and the product of $3,500 and the number of miles of track owned or leased.

83. ***Exclusion of interest on bonds for Financing of Highway Projects and Rail-Truck Transfer Facilities.***—This provision provides for $15 billion of tax-exempt bond authority to finance qualified highway or surface freight transfer facilities. The authority to issue these bonds expires on December 31, 2015.

Community and Regional Development

84. ***Rehabilitation of structures.***—A 10-percent investment tax credit is available for the rehabilitation of buildings that are used for business or productive

activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit.

85. ***Airport, dock, and similar facility bonds.***—Interest earned on State and local bonds issued to finance high-speed rail facilities and government-owned airports, docks, wharves, and sport and convention facilities is tax-exempt. These bonds are not subject to a volume cap.

86. ***Exemption of income of mutuals and cooperatives.***—The incomes of mutual and cooperative telephone and electric companies are exempt from tax if at least 85 percent of their revenues are derived from patron service charges.

87. ***Empowerment zones and renewal communities.***—Qualifying businesses in designated economically depressed areas can receive tax benefits such as an employer wage credit, increased expensing of investment in equipment, special tax-exempt financing, accelerated depreciation, and certain capital gains incentives. Empowerment zone and renewal community designations expire at the end of 2009. The Job Creation and Worker Assistance Act of 2002 expanded the existing provisions by adding the "New York City Liberty Zone." In addition, the Working Families Tax Relief Act of 2004 extended the District of Columbia Enterprise Zone and the District of Columbia first time homebuyer credit by two years through 2007.

The Gulf Opportunity Zone Act of 2005 added several provisions targeted to encourage the redevelopment of areas affected by hurricanes Katrina, Rita and Wilma, including some provisions that have already been listed elsewhere in this table. Gulf Opportunity Zone Act provisions not listed elsewhere include additional tax-exempt bond financing authority, accelerated depreciation of investment in both structures and equipment, partial expensing for certain demolition and clean-up costs, increased carryback of certain net operating losses, increased authority to allocate low-income housing tax credits and new markets tax credits within the affected areas and other provisions.

88. ***New markets tax credit.***—Taxpayers who make qualified equity investments in a community development entity (CDE), which then makes qualified investments in low-income communities, are eligible for a tax credit received over 7 years. The amount of the credit equals (1) 5 percent in the year of purchase and the following 2 years, and (2) 6 percent in the following 4 years. A CDE is any domestic firm the primary mission of which is to serve or provide investment capital for low-income communities/individuals; a CDE must be accountable to residents of low-income communities. The total equity investment available for the credit across all CDEs is $1.0 billion in 2001, $1.5 billion in 2002 and 2003, $2.0 billion in 2004 and 2005, and $3.5 billion in 2006 and 2008. Credit authority is allocated to CDEs through a competitive application process.

89. ***Expensing of environmental remediation costs.***—Taxpayers who clean up certain hazardous substances at a qualified site may expense the clean-up costs, even though the expenses will generally increase the value of the property significantly or appreciably prolong the life of the property. The Working Families Tax Relief Act of 2004 extended this provision for two years, allowing remediation expenditures incurred before December 31, 2007 to be eligible for expensing.

90. ***Credit to holders of Gulf Tax Credit Bonds.***—Taxpayers that own Gulf Tax Credit bonds receive a non-refundable tax credit (at a rate set by the Treasury Department) rather than interest. The credit is included in gross income. The maximum amount that can be issued is $200 million in the case of Louisiana, $100 million in the case of Mississippi, and $50 million in the case of Alabama.

Education, Training, Employment, and Social Services

91. ***Scholarship and fellowship income.***—Scholarships and fellowships are excluded from taxable income to the extent they pay for tuition and course-related expenses of the grantee. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income. From an economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are rebates of educational costs. Thus, under the reference law method, this exclusion is not a tax expenditure because this method does not include either gifts or price reductions in a taxpayer's gross income. The exclusion, however, is considered a tax expenditure under the normal tax method, which includes gift-like transfers of Government funds in gross income (many scholarships are derived directly or indirectly from Government funding).

92. ***HOPE tax credit.***—The non-refundable HOPE tax credit allows a credit for 100 percent of an eligible student's first $1,100 of tuition and fees and 50 percent of the next $1,100 of tuition and fees. The credit only covers tuition and fees paid during the first two years of a student's post-secondary education. In 2007, the credit is phased out ratably for taxpayers with modified AGI between $94,000 and $114,000 ($47,000 and $57,000 for singles), indexed.

93. ***Lifetime Learning tax credit.***—The non-refundable Lifetime Learning tax credit allows a credit for 20 percent of an eligible student's tuition and fees, up to a maximum credit per return is $2,000. The credit is phased out ratably for taxpayers with modified AGI between $90,000 and $110,000 ($47,000 and $57,000 for singles) (indexed beginning in 2002). The credit applies to both undergraduate and graduate students.

94. ***Education Individual Retirement Accounts.***—Contributions to an education IRA are not tax-deductible. Investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's tuition and fees. The maximum contribution to an education IRA in 2007 is $2000 per beneficiary. The maximum contribution is phased down

ratably for taxpayers with modified AGI between $190,000 and $220,000 ($95,000 and $110,000 for singles).

95. ***Student-loan interest.***—Taxpayers may claim an above-the-line deduction of up to $2,500 on interest paid on an education loan. Interest may only be deducted for the first five years in which interest payments are required. In 2007, the maximum deduction is phased down ratably for taxpayers with modified AGI between $110,000 and $140,000 ($55,000 and $70,000 for singles), indexed.

96. ***Deduction for Higher Education Expenses.***—The maximum annual deduction for qualified higher education expenses is $4,000 in 2007 for taxpayers with adjusted gross income up to $130,000 on a joint return ($65,000 for singles). Taxpayers with adjusted gross income up to $160,000 on a joint return ($80,000 for singles) may deduct up to $2,000 beginning in 2004. No deduction is allowed for expenses paid after December 31, 2007.

97. ***State prepaid tuition plans.***—Some States have adopted prepaid tuition plans and prepaid room and board plans, which allow persons to pay in advance for college expenses for designated beneficiaries. In 2001 taxes on the earnings from these plans are paid by the beneficiaries and are deferred until tuition is actually paid. Beginning in 2002, investment income is not taxed when earned, and is tax-exempt when withdrawn to pay for qualified expenses.

98. ***Student-loan bonds.***—Interest earned on State and local bonds issued to finance student loans is tax-exempt. The volume of all such private activity bonds that each State may issue annually is limited.

99. ***Bonds for private nonprofit educational institutions.***—Interest earned on State and local Government bonds issued to finance the construction of facilities used by private nonprofit educational institutions is not taxed.

100. ***Credit for holders of zone academy bonds.***—Financial institutions that own zone academy bonds receive a non-refundable tax credit (at a rate set by the Treasury Department) rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. The total amount of zone academy bonds that may be issued is limited to $1.6 billion—$400 million in each year from 1998 to 2007.

101. ***U.S. savings bonds for education.***—Interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses. The tax exemption is phased out for taxpayers with AGI between $98,400 and $128,400 ($65,600 and $80,600 for singles) in 2007.

102. ***Dependent students age 19 or older.***—Taxpayers may claim personal exemptions for dependent children who are over the age of 18 or under the age of 24 and who (1) reside with the taxpayer for over half the year (with exceptions for temporary absences from home, such as for school attendance), (2) are full-time students, and (3) do not claim a personal exemption on their own tax returns.

103. ***Charitable contributions to educational institutions.***—Taxpayers may deduct contributions to nonprofit educational institutions. Taxpayers who donate capital assets to educational institutions can deduct the asset's current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

104. ***Employer-provided educational assistance.***—Employer-provided educational assistance is excluded from an employee's gross income even though the employer's costs for this assistance are a deductible business expense.

105. ***Special deduction for teacher expenses.***—Educators in both public and private elementary and secondary schools, who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, may subtract up to $250 of qualified expenses when figuring their adjusted gross income (AGI). Provision expires at end of December 31, 2007.

106. ***Discharge of student loan indebtedness.***—Certain professionals who perform in underserved areas, and as a consequence get their student loans discharged, may not recognize such discharge as income.

106. ***Work opportunity tax credit.***— Employers can claim a tax credit for qualified wages paid to individuals who begin work on or before August 31, 2011 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. The maximum credit per employee is generally $2,400 and can only be claimed on the first year of wages an individual earns from an employer. Employees must work at least 120 hours to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed. The Katrina Emergency Tax Relief Act of 2005 expanded WOTC eligibility to Hurricane Katrina Employees, defined as persons whose principal places of abode on August 28, 2005 were in the core disaster area and who beginning on such date and through August 28, 2007 are hired for a position principally located in the core disaster area; and beginning on such date and through December 31, 2005, are hired for a position regardless of its location. The usual certification process rules are waived for Hurricane Katrina employees. The Tax Relief and Health Care Act of 2006 modified the Work opportunity tax credit by changing definitions of the Food Stamp and Ex-Convict target groups and adding persons eligible for the Welfare-to-work credit as a new WOTC target group with a $10,000 ceiling on qualified first year wages and a 50 percent credit on qualified second year wages up to $10,000. The 2006

Act extended credits to qualified employees of WOTC target groups as defined by the 2006 Act hired through December 31, 2007 . The Small Business and Work Opportunity Act of 2007 expanded WOTC's Vocational Rehabilitation and Zone target groups and made WOTC credits useable against both the regular and AMT taxes. Specifically the Act authorized enhanced WOTC credits of up to $4,800 for qualified Veterans with service connected disabilities and increased the qualifying age limit for the Enterprise Zone/Enterprise Community/Renewal Community target group from 18–24 to 18–39. The 2007 Act extended credits to qualified employees of WOTC target groups as defined by the 2007 Act hired through August 31, 2011.

108. ***Welfare-to-work tax credit.***—An employer is eligible for a tax credit on the first $20,000 of eligible wages paid to qualified long-term family assistance recipients during the first two years of employment. The credit is 35 percent of the first $10,000 of wages in the first year of employment and 50 percent of the first $10,000 of wages in the second year of employment. Employees must work at least 400 hours to be eligible for the credit. The maximum credit is $8,500 per employee. The credit applies to wages paid to employees who are hired on or before December 31, 2006. The Tax Relief and Health Care Act of 2006 modified the Welfare to Work credit by making qualified long-term family assistance recipients a WOTC target group after December 31, 2007.

109. ***Employer-provided child care exclusion.***—Up to $5,000 of employer-provided child care is excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.

110. ***Employer-provided child care credit.***—The credit is equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by the amount of the credit. The maximum total credit is limited to $150,000 per taxable year.

111. ***Assistance for adopted foster children.***—Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and varied needs and a reimbursement of up to $2,000 for nonrecurring adoption expenses. These payments are excluded from gross income.

112. ***Adoption credit and exclusion.***—Taxpayers can receive a nonrefundable tax credit for qualified adoption expenses. The maximum credit is $11,390per child for 2007, and is phased-out ratably for taxpayers with modified AGI between $170,820 and $210,820. The credit amounts and the phase-out thresholds are indexed for inflation beginning in 2003. Unused credits may be carried forward and used during the five subsequent years. Taxpayers may also exclude qualified adoption expenses from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the benefits of the exclusion and the tax credit for different expenses. Stepchild adoptions are not eligible for either benefit.

113. ***Employer-provided meals and lodging.***—Employer-provided meals and lodging are excluded from an employee's gross income even though the employer's costs for these items are a deductible business expense.

114. ***Child credit.***—Taxpayers with children under age 17 can qualify for a $1,000 partially refundable per child credit. The maximum credit declines to $500 in 2011 and later years. The credit is phased out for taxpayers at the rate of $50 per $1,000 of modified AGI above $110,000 ($75,000 for singles).

115. ***Child and dependent care expenses.***—Married couples with child and dependent care expenses may claim a tax credit when one spouse works full time and the other works at least part time or goes to school. The credit may also be claimed by single parents and by divorced or separated parents who have custody of children. In 2007, expenditures up to a maximum $3,000 for one dependent and $6,000 for two or more dependents are eligible for the credit. The credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of $15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each $2,000 of income in excess of $15,000.

116. ***Disabled access expenditure credit.***—Small businesses (less than $1 million in gross receipts or fewer than 31 full-time employees) can claim a 50-percent credit for expenditures in excess of $250 to remove access barriers for disabled persons. The credit is limited to $5,000.

117. ***Charitable contributions, other than education and health.***—Taxpayers may deduct contributions to charitable, religious, and certain other nonprofit organizations. Taxpayers who donate capital assets to charitable organizations can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

118. ***Foster care payments.***—Foster parents provide a home and care for children who are wards of the State, under contract with the State. Compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

119. ***Parsonage allowances.***—The value of a minister's housing allowance and the rental value of parsonages are not included in a minister's taxable income.

120. ***Provide an employee retention credit to employers affected by hurricane Katrina, Rita, and Wilma.***—Businesses located within the Gulf Opportunity (GO) Zone on August 28, 2005 are eligible for a 40 percent tax credit on the first $6,000 in qualified wages paid to qualified employees employed within the GO Zone. Qualified wages are those paid by an eligible employer to an eligible employee on any day after Au-

gust 28, 2005 and before January 1, 2006 during the period beginning on the date on which the trade or business first became inoperable at the principal place of employment of the employee by reason of hurricane Katrina and ending on the date on which such trade or business resumed significant operations at such principal place of employment. Similar rules apply to the Rita GO Zone and the Wilma GO Zone with initial effective dates of September 23, 2005, and October 23, 2005, respectively.

121. ***Exclusion for benefits provided to volunteer EMS and firefighters.***—Certain benefits received by volunteer EMS and firefighters excluded from income. This provision sunsets on December 31, 2010.

Health

122. ***Employer-paid medical insurance and expenses.***—Employer-paid health insurance premiums and other medical expenses (including long-term care) are deducted as a business expense by employers, but they are not included in employee gross income. The self-employed also may deduct part of their family health insurance premiums.

123. ***Self-employed medical insurance premiums.***—Self-employed taxpayers may deduct a percentage of their family health insurance premiums. Taxpayers without self-employment income are not eligible for the special percentage deduction. The deductible percentage is 60 percent in 2001, 70 percent in 2002, and 100 percent in 2003 and thereafter.

124. ***Medical and health savings accounts.***—Individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2007, $2850 for taxpayers with individual coverage and $5,650 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

125. ***Medical care expenses.***—Personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible.

126. ***Hospital construction bonds.***—Interest earned on State and local government debt issued to finance hospital construction is excluded from income subject to tax.

127. ***Charitable contributions to health institutions.***—Individuals and corporations may deduct contributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

128. ***Orphan drugs.***—Drug firms can claim a tax credit of 50 percent of the costs for clinical testing required by the Food and Drug Administration for drugs that treat rare physical conditions or rare diseases.

129. ***Blue Cross and Blue Shield.***—Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided exceptions from otherwise applicable insurance company income tax accounting rules that substantially reduce (or even eliminate) their tax liabilities.

130. ***Tax credit for health insurance purchased by certain displaced and retired individuals.***—The Trade Act of 2002 provided a refundable tax credit of 65 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain PBGC pension recipients.

131. ***Distributions for premiums for health and long-term care insurance.***—This provision provides for tax-free distributions of up to $3,000 from governmental retirement plans for premiums for health and long term care premiums of public safety officers.

Income Security

132. ***Railroad retirement benefits.***—Railroad retirement benefits are not generally subject to the income tax unless the recipient's gross income reaches a certain threshold. The threshold is discussed more fully under the Social Security function.

133. ***Workers' compensation benefits.***—Workers compensation provides payments to disabled workers. These benefits, although income to the recipients, are not subject to the income tax.

134. ***Public assistance benefits.***—Public assistance benefits are excluded from tax. The normal tax method considers cash transfers from the Government as taxable and, thus, treats the exclusion for public assistance benefits as a tax expenditure.

135. ***Special benefits for disabled coal miners.***—Disability payments to former coal miners out of the Black Lung Trust Fund, although income to the recipient, are not subject to the income tax.

136. ***Military disability pensions.***—Most of the military pension income received by current disabled retired veterans is excluded from their income subject to tax.

137. ***Employer-provided pension contributions and earnings.***—Certain employer contributions to pension plans are excluded from an employee's gross income even though the employer can deduct the contributions. In addition, the tax on the investment income earned by the pension plans is deferred until the money is withdrawn.

138. ***401(k) plans.***—Individual taxpayers can make tax-preferred contributions to certain types of employer-provided 401(k) plans (and 401(k)-type plans like 403(b) plans and the Federal government's Thrift Savings Plan). In 2007, an employee could exclude up to $15,500

(indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. The tax on the investment income earned by 401(k)-type plans is deferred until withdrawn.

Employees are allowed to make after-tax contributions to 401(k) and 401(k)-type plans. These contributions are not excluded from AGI, but the investment income of such after-tax contributions is not taxed when earned or withdrawn.

139. ***Individual Retirement Accounts.***—Individual taxpayers can take advantage of several different Individual Retirement Accounts (IRAs): deductible IRAs, non-deductible IRAs, and Roth IRAs. The annual contributions limit applies to the total of a taxpayer's deductible, non-deductible, and Roth IRAs contributions. The IRA contribution limit is $4,000 in 2006 and 2007, and $5,000 in 2008 (indexed thereafter) and allows taxpayers over age 50 to make additional "catch-up" contributions of $1,000.

Taxpayers whose AGI is below $83,000 ($62,000 for non-joint filers) in 2007 can claim a deduction for IRA contributions. The IRA deduction is phased out for taxpayers with AGI between $83,000 to $103,000 in 2007. Taxpayers whose AGI is above the phase-out range can also claim a deduction for their IRA contributions depending on whether they (or their spouse) are an active participant in an employer-provided retirement plan. The tax on the investment income earned by 401(k) plans, non-deductible IRAs, and deductible IRAs is deferred until the money is withdrawn.

Taxpayers with incomes below $166,000 ($114,000 for nonjoint filers) can make contributions to Roth IRAs. The maximum contribution to a Roth IRA is phased out for taxpayers with AGI between $156,000 and $166,000 ($99,000 and $114,000 for singles). Investment income of a Roth IRA is not taxed when earned nor when withdrawn. Withdrawals from a Roth IRA are penalty free if: (1) the Roth IRA was opened at least 5 years before the withdrawal, and (2) the taxpayer either (a) is at least 591/2, (b) dies, (c) is disabled, or (d) purchases a first-time house.

Taxpayers can contribute to a non-deductible IRA regardless of their income and whether they are an active participant in an employer-provided retirement plan. The tax on investment income earned by non-deductible IRAs is deferred until the money is withdrawn.

140. ***Low and moderate-income savers' credit.***—The Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to $2,000. This credit is in addition to any deduction or exclusion. The credit is completely phased out by $52,000 for joint filers and $26,000 for single filers.

141. ***Keogh plans.***—Self-employed individuals can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their income, up to a maximum of $45,000 in 2007. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by Keogh plans is deferred until withdrawn.

142. ***Employer-provided life insurance benefits.***—Employer-provided life insurance benefits are excluded from an employee's gross income even though the employer's costs for the insurance are a deductible business expense, but only to the extent that the employer's share of the total costs does not exceed the cost of $50,000 of such insurance.

143. ***Employer-provided accident and disability benefits.***—Employer-provided accident and disability benefits are excluded from an employee's gross income even though the employer's costs for the benefits are a deductible business expense.

144. ***Employer-provided supplementary unemployment benefits.***—Employers may establish trusts to pay supplemental unemployment benefits to employees separated from employment. Interest payments to such trusts are exempt from taxation.

145. ***Employer Stock Ownership Plan (ESOP) provisions.***—ESOPs are a special type of tax-exempt employee benefit plan. Employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. The following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: (1) annual employer contributions are subject to less restrictive limitations; (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by his payment (deductible by him) of a portion of wages (excludable by the employees) to service the loan; (3) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; and (4) dividends paid to ESOP-held stock are deductible by the employer.

146. ***Additional deduction for the blind.***—Taxpayers who are blind may take an additional $1,300 standard deduction if single, or $1,050 if married in 2007.

147. ***Additional deduction for the elderly.***—Taxpayers who are 65 years or older may take an additional $1,300 standard deduction if single, or $1,050 if married in 2007.

148. ***Tax credit for the elderly and disabled.***—Individuals who are 65 years of age or older, or who are permanently disabled, can take a tax credit equal to 15 percent of the sum of their earned and retirement income. Income is limited to no more than $5,000 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older, and up to $7,500 for joint returns where both spouses are 65 years of age or older. These limits are reduced by one-half of the taxpayer's adjusted gross income over $7,500 for single individuals and $10,000 for married couples filing a joint return.

149. ***Casualty losses.***—Neither the purchase of property nor insurance premiums to protect its value are deductible as costs of earning income; therefore, reimbursement for insured loss of such property is not reportable as a part of gross income. Taxpayers, however, may deduct uninsured casualty and theft losses of more than $100 each, but only to the extent that total losses during the year exceed 10 percent of AGI.

150. ***Earned income tax credit (EITC***).—The EITC may be claimed by low-income workers. For a family with one qualifying child, the credit is 34 percent of the first $8,080 of earned income in 2007. The credit is 40 percent of the first $11,790 of income for a family with two or more qualifying children. The credit is phased out beginning when the taxpayer's income exceeds $15,390 at the rate of 15.98 percent (21.06 percent if two or more qualifying children are present). It is completely phased out when the taxpayer's modified adjusted gross income reaches $33,241 ($37,783 if two or more qualifying children are present), $35,241 (or $39,783) for those married.

The credit may also be claimed by workers who do not have children living with them. Qualifying workers must be at least age 25 and may not be claimed as a dependent on another taxpayer's return. The credit is not available to workers age 65 or older. In 2007, the credit is 7.65 percent of the first $5,590 of earned income. When the taxpayer's income exceeds $7,000 (9,000 if married), the credit is phased out at the rate of 7.65 percent. It is completely phased out at $12,590 ($14,590 for married) of modified adjusted gross income.

For workers with or without children, the income levels at which the credit begins to phase-out and the maximum amounts of income on which the credit can be taken are adjusted for inflation. For married taxpayers filing a joint return, the base amount for the phase-out increases by $2,000 in 2006 through 2007, and $3,000 in 2008 (indexed thereafter).

Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals. This portion of the credit is shown as an outlay, while the amount that offsets tax liabilities is shown as a tax expenditure.

151. ***Additional exemption for housing Hurricane Katrina displaced individuals.***—This provision, introduced by the Katrina Emergency Tax Relief Act of 2005, provides an additional exemption of $500 for each Hurricane Katrina displaced individual for whom the taxpayer is providing shelter in his or her home, for a maximum additional exemption amount is $2,000.

Social Security

152. ***Social Security benefits for retired workers.***—The non-taxation of Social Security benefits that exceed the beneficiary's contributions out of taxed income is a tax expenditure. These additional retirement benefits are paid for partly by employers' contributions that were not included in employees' taxable compensation. Portions (reaching as much as 85 percent) of recipients' Social Security and Tier 1 Railroad Retirement benefits are included in the income tax base, however, if the recipient's provisional income exceeds certain base amounts. Provisional income is equal to adjusted gross income plus foreign or U.S. possession income and tax-exempt interest, and one half of Social Security and tier 1 railroad retirement benefits. The tax expenditure is limited to the portion of the benefits received by taxpayers who are below the base amounts at which 85 percent of the benefits are taxable.

153. ***Social Security benefits for the disabled.***—Benefit payments from the Social Security Trust Fund for disability are partially excluded from a beneficiary's gross incomes.

154. ***Social Security benefits for dependents and survivors.***—Benefit payments from the Social Security Trust Fund for dependents and survivors are partially excluded from a beneficiary's gross income.

Veterans Benefits and Services

155. ***Veterans death benefits and disability compensation.***—All compensation due to death or disability paid by the Veterans Administration is excluded from taxable income.

156. ***Veterans pension payments.***—Pension payments made by the Veterans Administration are excluded from gross income.

157. ***G.I. Bill benefits.***—G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

158. ***Tax-exempt mortgage bonds for veteran.***—Interest earned on general obligation bonds issued by State and local governments to finance housing for veterans is excluded from taxable income. The issuance of such bonds is limited, however, to five pre-existing State programs and to amounts based upon previous volume levels for the period January 1, 1979 to June 22, 1984. Furthermore, future issues are limited to veterans who served on active duty before 1977.

General Government

159. ***Public purpose State and local bonds.***—Interest earned on State and local government bonds issued to finance public-purpose construction (e.g., schools, roads, sewers), equipment acquisition, and other public purposes is tax-exempt. Interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax-exempt.

160. ***Deductibility of certain nonbusiness State and local taxes.***—Taxpayers may deduct State and local income taxes and property taxes even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible. The deductibility of state and local sales taxes is set to expire at the end of 2007.

Interest

161. ***U.S. savings bonds.***—Taxpayers may defer paying tax on interest earned on U.S. savings bonds until the bonds are redeemed.

Appendix A

TREASURY REVIEW OF THE TAX EXPENDITURE PRESENTATION

This appendix provides a presentation of the Treasury Department's continuing review of the tax expenditure budget. The review focuses on three issues: (1) using comprehensive income as a baseline tax system; (2) using a consumption tax as a baseline tax system; and (3) defining negative tax expenditures (provisions that cause taxpayers to pay too much tax).

The first section of this appendix compares major tax expenditures in the current budget to those implied by a comprehensive income baseline. This comparison includes a discussion of negative tax expenditures. The second section compares the major tax expenditures in the current budget to those implied by a consumption tax baseline, and also discusses negative tax expenditures. The final section addresses concerns that have been raised over the measurement of some current tax expenditures by describing new estimates of the tax expenditure caused by accelerated depreciation and by the tax exemption of the return earned on owner-occupied housing, and an alternative estimate of the tax expenditure for the preferential treatment of capital gains. The final section also provides an estimate of the negative tax expenditure caused by the double tax on corporate profits.

DIFFERENCES BETWEEN OFFICIAL TAX EXPENDITURES AND THOSE BASED ON COMPREHENSIVE INCOME

As discussed in the main body of the chapter, tax expenditures are measured relative to normal law or reference law baselines that deviate from a comprehensive concept of income. Consequently, tax expenditures identified in the Budget can differ from those that would be identified under a comprehensive income tax baseline. This appendix compares major tax expenditures listed in the tax expenditure budget with those implied by a comprehensive income baseline.

Current budgetary practice excludes from the list of tax expenditures those provisions that over-tax certain items of income because the original motivation for the analysis was to identify tax provisions that substitute for direct Government spending programs. However, this treatment gives a one-sided picture of how current law deviates from the baseline tax system. Relative to comprehensive income, a number of current tax provisions would be negative tax expenditures. Some of these also might be negative tax expenditures under the reference law or normal law baselines, expanded to admit negative tax expenditures.

Major Tax Expenditures from the Traditional Budget under a Comprehensive Income Tax Baseline

Comprehensive income, also called Haig-Simons income, is the real, inflation-adjusted accretion to one's economic power arising between two points in time, e.g., the beginning and ending of the year. It includes all accretions to wealth, whether or not realized, whether or not related to a market transaction, and whether a return to capital or labor. Inflation-adjusted capital gains (and losses) would be included in comprehensive income as they accrue. Business investment and casualty losses, including losses caused by depreciation, would be deducted. Implicit returns, such as those accruing to homeowners, also would be included in comprehensive income. A comprehensive income tax baseline would tax all sources of income once and only once. Thus, it would not levy a separate tax on corporate income leading to the double taxation of corporate profits.

Comprehensive income is widely held to be the idealized base for an income tax even though it is not a perfectly defined concept.[5] It suffers from conceptual ambiguities, some of which are discussed below, as well as practical problems in measurement and tax administration, e.g., how to implement a practicable deduction for economic depreciation or include in income the return earned on consumer durable goods such as housing, automobiles, and major appliances.

Furthermore, comprehensive income does not necessarily represent an ideal tax base; economic efficiency would be improved by deviating from comprehensive income as a tax base by reducing the tax on capital income to spur economic growth further or by subsidizing certain types of activities to correct for market failures. In addition, some elements of comprehensive income would be difficult or impossible to include in a tax system that is administrable.

Classifying individual tax provisions relative to a comprehensive income baseline is difficult in part because of the ambiguity of the baseline. It also is difficult because of interactions between tax provisions (or their absence). These interactions mean that it may not always be appropriate to consider each provision in isolation. Nonetheless, Appendix Table 1 attempts such a classification for each of thirty illustrative large tax expenditures from the Budget.

Table 1 classifies fifteen of the thirty items as tax expenditures under a comprehensive tax base (those in panel A). Most of these give preferential tax treatment to the return on certain types of savings or investment. They reflect the hybrid nature of the existing tax system and arise out of policy decisions to reduce the high tax rate on capital income that would otherwise arise. Even these relatively clear-cut items, how-

[5] See, e.g., David F. Bradford, Untangling the Income Tax (Cambridge, MA: Harvard University Press, 1986), pp. 15–31, and Richard Goode, "The Economic Definition of Income" in Joseph Pechman, ed., Comprehensive Income Taxation (Washington, D.C.: The Brookings Institution, 1977), pp. 1–29.

ever, can raise ambiguities in light of the absence of integration of the corporate and individual tax systems. For example, the reduction or elimination of individual level tax on income from investment in corporate equities might not be a tax expenditure relative to a comprehensive income baseline because the income is taxed first at the corporate level. A similar line of reasoning suggests that in the case of corporations, expensing[6] of R&E or accelerated depreciation are not tax expenditures because they offset the corporate tax penalty.

Because net rental income (gross rents minus depreciation, interest, taxes, and other expenses) would be in the homeowner's tax base under a comprehensive income tax baseline, this item would continue to be a tax expenditure relative to a comprehensive income baseline.

The exclusion of worker's compensation benefits also would be a tax expenditure under comprehensive income tax principles; if the worker were to buy the insurance himself, he would be able to deduct the premium (since it represents a reduction in net worth) but should include in income the benefits when paid (since it represents an increase in net worth).[7] If the employer pays the premium, the proper treatment would allow the employer a deduction and allow the employee to disregard the premium, but he would take any proceeds into income. Current law allows the employer to deduct the premium and excludes both the premium and the benefits from the employee's tax base.

Panel B displays items that probably are tax expenditures, but that raise additional issues. Current law, for instance, allows deductions for home mortgage interest and for property taxes on owner-occupied housing. The tax expenditure budget includes both of these provisions. A comprehensive tax base would allow both deductions, but it would also include imputed gross rental income. Current law does not include gross rental income, however, and so on this basis the home mortgage interest deduction and the deduction for property taxes on owner-occupied housing are properly tax expenditures under a comprehensive income tax base.[8] Indeed, the sum of the tax expenditure for these two deductions, plus the tax expenditure for the failure to include net rental income, sums to the tax expenditure for owner-occupied housing relative to a comprehensive income tax base.

The deduction of nonbusiness State and local taxes other than on owner-occupied homes also is included in Panel B. The justification for this tax expenditure is that taxpayers may deduct State and local income taxes and property taxes even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible.[9] The difficulty is that this presumes that one's consumption of State and local services relates directly to the amount of State and local taxes paid. Such a presumption is difficult to sustain when taxes are levied inconsistently across taxpayers.[10]

In contrast to the view in the official Budget, however, the deduction for State and local taxes might not be a tax expenditure if the baseline were comprehensive income. Properly measured comprehensive income would include the value of State and local government benefits received, but would allow a deduction for State and local taxes paid.[11] Thus, in this sense the deductibility of State and local taxes is consistent with comprehensive income tax principles; it should not be a tax expenditure. Nonetheless, imputing the value of State and local services is difficult and is not done under current law. Consequently, a deduction for taxes might sensibly be viewed as a (roughly measured) tax expenditure relative to a comprehensive income baseline.[12]

The comprehensive income tax base is an objective measure of income. Traditionally, this measure is modified to reflect a subjective or social economic policy concern regarding the financial ability of an individual to pay tax. Absent this modification, provisions such as the personal exemption and the child tax credit would be treated as tax expenditures. However, once the definition of income is modified to reflect the ability of an individual to pay tax, then these and similar provisions are typically dropped from the list of tax expenditures.

The step-up of basis at death lowers the tax on capital gains for those who inherit assets. From that perspective it would be a tax expenditure under a comprehensive income baseline. Nonetheless, there are ambiguities. Under a comprehensive income baseline, all inflation-adjusted gains would be taxed as accrued, so there would be no deferred unrealized gains on assets held at death.

The partial exclusion of Social Security benefits from tax is also listed in panel B. To the extent Social Security is viewed as a pension, comprehensive income would include all contributions to Social Security retirement funds (payroll taxes) and tax accretions to value as they arise.[13] Benefits paid out of contributions and the inside build-up in value, however, would not be

[6] Expensing means immediate deduction. Proper income tax treatment requires capitalization followed by annual depreciation allowances reflecting the decay in value of the associated R&E spending.

[7] Suppose a taxpayer buys a one year term unemployment insurance policy at the beginning of the year. At that time he exchanges one asset, cash, for another, the insurance policy, so there is no change in net worth. But, at the end of the year, the policy expires and so is worthless, hence the taxpayer has a reduction in net worth equal to the premium. If the policy pays off during the year (i.e., the taxpayer has a work related injury), then the taxpayer would include the proceeds in income because they represent an increase in his net worth.

[8] If there were no deduction for interest and property taxes, the tax expenditure base (i.e., the proper tax base minus the actual tax base) for owner-occupied housing would equal the homeowner's net rental income: gross rents minus(depreciation+interest+property taxes+other expenses). With the deduction for interest and property taxes, the tax expenditure base rises to gross rents minus (depreciation+other expenses).

[9] Fiscal Year 2003 Budget of the United States Government, Analytical Perspectives (Washington, D.C.: U.S. Government Printing Office, 2002) p. 127.

[10] Property taxes on owner-occupied housing also might serve as a proxy for the value of untaxed local services provided to homeowners. As such, they would be listed in the tax expenditure budget (as configured, i.e., building on the estimate for the failure to tax net rents) twice, once because current law does not tax rental income and again as a proxy for government services received. Property taxes on other consumer durables such as automobiles also might be included twice, owing to current law's exclusion from income of the associated service flow.

[11] U.S. Treasury, Blueprints for Basic Tax Reform (Washington, D.C.: U.S. Government Printing Office, 1977) p. 92.

[12] Under the normal tax method employed by the Joint Committee on Taxation, the value of some public assistance benefits provided by State Governments is included as a tax expenditure, thereby raising a potential double counting issue.

[13] As a practical matter, this may be impossible to do. Valuing claims subject to future contingencies is very difficult, as discussed in Bradford, Untangling the Income Tax, pp. 23–24.

included because the fall in the value of the individual's Social Security account would be offset by an increase in cash. In contrast, to the extent that Social Security is viewed as a transfer program, all contributions should be deductible from income and all benefits received should be included.

In contrast to any of these treatments, current law excludes one-half of Social Security contributions (employer-paid payroll taxes) from the base of the income tax, makes no attempt to tax accretions, and subjects some, but not all, benefits to taxation. The difference between current law's treatment of Social Security benefits and their treatment under a comprehensive income tax would qualify as a tax expenditure, but such a tax expenditure differs in concept from that included in the official Budget.

The tax expenditures in the official Budget [14] reflect exemptions for lower-income beneficiaries from the tax on 85 percent of Social Security benefits. [15] Historically, payroll taxes paid by the employee represented no more than 15 percent of the expected value of the retirement benefits received by a lower-earning Social Security beneficiary. The 85 percent inclusion rate is intended to tax upon distribution the remaining amount of the retirement benefit payment—the portion arising from the payroll tax contributions made by employers and the implicit return on the employee and employer contributions. Thus, the tax expenditure conceived and measured in the current budget is not intended to capture the deviation from a comprehensive income baseline, which would additionally account for the deferral of tax on the employer's contributions and on the rate of return (less an inflation adjustment attributable to the employee's payroll tax contributions). Rather, it is intended to approximate the taxation of private pensions with employee contributions made from after-tax income. [16] Hence, the tax expenditure budget understates the tax advantage accorded Social Security retirement benefits relative to a comprehensive income baseline.

The deduction for U.S. production activities also raises problems. To the extent it is viewed as a tax break for certain qualifying businesses ("manufacturers"), it would be a tax expenditure. In contrast, the deduction may prove to be so broad that it is available to most U.S. businesses, in which case it might not be seen as a tax expenditure. Rather, it would then represent a feature of the baseline tax rate system because the deduction is equivalent to a lower tax rate. In addition, it might not be a tax expenditure to the extent it is viewed as providing relief from the double tax on corporate profits.

The next category (panel C) includes items whose treatment is less certain. The proper treatment of some of these items under a comprehensive income tax is ambiguous, while others may serve as proxies for provisions that would be a tax expenditure under a comprehensive income base. [17]

For example, under existing law charitable contributions are deductible, and this deduction is considered on its face a tax expenditure in the current budget. [18] The treatment of charitable donations, however, is ambiguous under a comprehensive income tax. If charitable contributions are a consumption item for the giver, then they are properly included in his taxable income and a deduction for contributions would be a tax expenditure under a comprehensive income tax base. In contrast, charitable contributions could represent a transfer of purchasing power from the giver to the receiver. As such, they would represent a reduction in the giver's net worth, not an item of consumption, and so properly would be deductible, implying that the charitable deduction is not a tax expenditure. At the same time, however, the value of the charitable benefits received is income to the recipient. Under current law, such income is not taxed. [19]

Medical expenditures may or may not be an element of income. These expenditures may be viewed as a reduction of net worth (e.g. cost of earning income) rather than as discretionary spending, and so are not really consumption and should be excluded from the tax base. However, expenditures for medical care may be considered as indistinguishable from other consumption items which are not excluded from a comprehensive income base.

The exemption of full taxation of Social Security benefits paid to the disabled also raises issues. Social Security benefits for the disabled most closely resemble either Government transfers or insurance. From either perspective, a comprehensive income tax would require that the benefit be included in income and would allow a deduction for associated Social Security taxes. If viewed as insurance, an equivalent treatment would allow the taxpayer to include the premium (i.e., tax) and exclude the benefit. The deviation between either of these treatments and current law's treatment (described above) would be a tax expenditure under a comprehensive income baseline.

In contrast, as described above, the tax expenditure budget displays the benefit of exempting low-income beneficiaries from the tax on 85 percent of Social Security benefits. This measurement does not correspond closely to that required under a comprehensive income base. If the payment of the benefit is viewed as a transfer and divorced from the treatment of Social Security taxes, then the current tax expenditure understates the tax expenditure measured relative to a comprehensive

[14] This includes the tax expenditure for benefits paid to workers, that for benefits paid to survivors and dependents, and that for benefits paid to dependents.

[15] The current Budget does not include as a tax expenditure the absence of income taxation on the employer's contributions (payroll taxes) to Social Security retirement at the time these contributions are made.

[16] Private pensions allow the employee to defer tax on all inside build-up. They also allow the employee to defer tax on contributions made by the employer, but not on contributions made directly by the employee. Applying these tax rules to Social Security would require the employee to include in his taxable income benefits paid out of inside build-up and out of the employer's contributions, but would allow the employee to exclude from his taxable income benefits paid out of his own contributions.

[17] See, for example, Goode, The Economic Definition of Income, pp. 16–17, and Bradford, Untangling the Income Tax, pp. 19–21, and pp.30–31.

[18] The item also includes gifts of appreciated property, at least part of which represents a tax expenditure relative to an ideal income tax, even if one assumes that charitable donations are not consumption.

[19] If recipients tend to be in lower tax brackets, then the tax expenditure is smaller than when measured at the donor's tax rates.

income baseline. If the payment of the benefit is viewed as a transfer but the inability to deduct the employee's share of the Social Security tax is simultaneously considered, then it is less likely that the current tax expenditure overstates the tax expenditure relative to a comprehensive income baseline, and in some cases it may generate a negative tax expenditure. If the benefit is viewed as insurance and the tax as a premium, then the current tax expenditure overstates the tax expenditure relative to a comprehensive income baseline. Indeed, in the insurance model, the ability to exclude from tax only half of the premium might suggest that half of the payout should be taxed, so that the current tax rules impose a greater tax burden than that implied by a comprehensive income tax, i.e., a negative tax expenditure.

The final category (panel D) includes items that would not be tax expenditures under a comprehensive income tax base. A tax based on comprehensive income would allow all losses to be deducted. Hence, the exception from the passive loss rules would not be a tax expenditure.[20]

Major Tax Expenditures under a Comprehensive Income Tax That Are Excluded from the Current Budget

While most of the major tax expenditures in the current budget also would be tax expenditures under a comprehensive income base, there also are tax expenditures relative to a comprehensive income base that are not found on the existing tax expenditure list. These additional tax expenditures include the imputed return from certain consumer durables (e.g., automobiles), the difference between capital gains (and losses) as they accrue and capital gains as they are realized, private gifts and inheritances received, in-kind benefits from such Government programs as food-stamps, Medicaid, and public housing, the value of payouts from insurance policies,[21] and benefits received from private charities. Under some theories of comprehensive income, the value of leisure and of household production of goods and services also would be included as tax expenditures. The personal exemption and standard deduction also might be considered tax expenditures, although they can be viewed differently, e.g., as elements of the basic tax rate schedule. The foreign tax credit also might be a tax expenditure since a deduction for foreign taxes, rather than a credit, might measure the income of U.S. residents properly.

Negative Tax Expenditures

The passive loss rules, restrictions on the deductibility of capital losses, and net operating loss (NOL) carry-forward requirements each would generate a negative tax expenditure, since a comprehensive income tax would allow full deductibility of losses.

Human capital is generally considered a productive asset, and so its cost (e.g., certain education and training expenses, including perhaps the cost of college and professional school) should be amortizable under a comprehensive income tax, but it is not under current law.[22]

Some restricted deductions under the individual AMT might be negative tax expenditures as might the phase-out of personal exemptions and of itemized deductions. The inability to deduct consumer interest also might be a negative tax expenditure, as an interest deduction may be required to measure income properly, as seen by the equivalence between borrowing and reduced lending.[23] As discussed above, the current treatment of Social Security payments to the disabled also might represent a negative tax expenditure if viewed as payments on an insurance policy.

Current tax law also fails to index for inflation interest receipts, capital gains, depreciation, and inventories. This failure leads to negative tax expenditures because comprehensive income would be indexed for inflation. Current law, however, also fails to index for inflation the deduction for interest payments and so this represents a (positive) tax expenditure.

The issue of indexing also highlights that even if one wished to focus only on tax policies that are similar to spending programs, accounting for some negative tax expenditures may be required. For example, the net subsidy created by accelerated depreciation is properly measured by the difference between depreciation allowances specified under existing tax law and economic depreciation, which is indexed for inflation.[24]

DIFFERENCES BETWEEN OFFICIAL TAX EXPENDITURES AND TAX EXPENDITURES RELATIVE TO A CONSUMPTION TAX BASE

This section compares tax expenditures listed in the tax expenditure budget with those implied by a comprehensive consumption tax baseline. It first discusses some of the difficulties encountered in contemplating current tax provisions as part of a comprehensive consumption tax. Next, it assesses which of thirty large income tax expenditures would be tax expenditures under the consumption tax baseline, concluding that about half would remain under a consumption tax baseline. Most that fall off the list are incentives for saving and investment.

The section next discusses some major differences between current law and a comprehensive consumption tax baseline. These differences include the consumption

[20] In contrast, the passive loss rules themselves, which restrict the deduction of losses, would be a negative tax expenditure when compared to a comprehensive tax base.

[21] To the extent that premiums are deductible.

[22] Current law offers favorable treatment to some education costs, thereby creating (positive) tax expenditures. Current law allows expensing of that part of the cost of education and career training that is related to foregone earnings and this would be a tax expenditure under a comprehensive income baseline.

[23] See Bradford, Untangling the Income Tax, p. 41.

[24] Accelerated depreciation can be described as the equivalent of an interest free loan from the Government to the taxpayer. Under federal budget accounting principles, such a loan would be treated as an outlay equal to the present value of the foregone interest.

value of owner-occupied housing and other consumer durables, benefits from in-kind Government transfers, and gifts. It concludes with a discussion of negative tax expenditures relative to a consumption tax baseline.

Ambiguities in Determining Tax Expenditures Relative to a Consumption Baseline

A broad-based consumption tax can be viewed as a combination of an income tax plus a deduction for net saving. This follows from the definition of comprehensive income as consumption plus the change in net worth. It therefore seems straightforward to say that current law's deviations from a consumption base are the sum of (a) tax expenditures on an income base associated with exemptions and deductions for certain types of income, plus (b) overpayments of tax, or negative tax expenditures, to the extent net saving is not deductible from the tax base. In reality, however, the situation is more complicated. Some issues arise which are also problems in defining a comprehensive income tax, but seem more severe, or at least only more obvious, for the consumption tax baseline.

It is not always clear how to treat certain items under a consumption tax. One problem discussed earlier in the context of the comprehensive income tax is determining whether a particular expenditure, such as spending on medical care and charitable donations, is an item of consumption.

Also, there may be more than one way to treat various items under a consumption tax. For example, a consumption tax might ignore borrowing and lending by excluding from the borrower's tax base the proceeds from loans, denying the borrower a deduction for payments of interest and principal, and excluding interest and principal payments received from the lender's tax base. On the other hand, a consumption tax might include borrowing and lending in the tax base by requiring the borrower to add the proceeds from loans in his tax base, allowing the lender to deduct loans from his tax base, allowing the borrower to deduct payments of principal and interest, and requiring the lender to include receipt of principal and interest payments. In present value terms, the two approaches are equivalent for both the borrower and the lender; in particular both allow the tax base to measure consumption and both impose a zero effective tax rate on interest income. But which approach is taken obviously has different implications (at least on an annual flow basis) for the treatment of many important items of income and expense such as the home mortgage interest deduction. The classification below suggests that the deduction for home mortgage interest could well be a tax expenditure, but takes note of alternative views.

Some exclusions of income are equivalent in many respects to consumption tax treatment that immediately deducts the cost of an investment while taxing the future cash flow. For example, exempting an investment's income (or yield) is equivalent to consumption tax treatment with respect to the normal rate of return on new investment; expensing generates a tax reduction that offsets in present value terms the tax paid on the investment's future normal returns. Because of this equivalence, in the context of consumption taxes, a yield exemption approach is sometimes called a tax prepayment approach. That is, tax is paid on an asset's purchase price rather than on the consumption flow that it generates.

However, a yield exemption approach differs from a pure consumption tax with respect to the distribution of income and Government revenue. Pure profits in excess of the normal rate of return would be taxed under a consumption tax because pure profits are an element of cash flow; however, pure profits would not be taxed under a yield exemption tax system. The question arises whether an exemption of certain kinds of investment income, and certain investment tax credits, should be regarded as the equivalent of consumption tax treatment. The classification that follows takes a fairly broad view of this equivalence and considers many tax provisions that reduce or eliminate the tax on capital income to be roughly consistent with a broad-based consumption tax.

Considering provisions individually can be misleading. The hybrid character of the existing tax system reflects many provisions that might be good policy in the context of a consumption tax, but that generate inefficiencies because of the problem of the "uneven playing field" when evaluated within the context of the existing tax rules. It is not clear how these should be classified. For example, many saving incentives are targeted to specific tax-favored sources of capital income. The inability to save on a similar tax-favored basis irrespective of the ultimate purpose to which the saving is applied potentially distorts economic choices in ways that would not occur under a broad-based consumption tax.

In addition, provisions can interact even once an appropriate treatment is determined. For example, if financial flows are excluded from the tax base, then the deduction for home mortgage interest would be a tax expenditure except that current law generally taxes interest income. When combined with the mortgage interest deduction, this offsets the inclusion of the interest flow, consistent with consumption tax treatment.

Capital gains would not be a part of a comprehensive consumption tax base. Proceeds from asset sales and sometimes borrowing would be part of the cash-flow tax base, but, for transactions between domestic investors at a flat tax rate, the effects of these transactions would cancel out in the economy as a whole. The classification below generally views available capital gains tax relief as consistent with a broad-based consumption tax because they lower tax rate on capital income is consistent with a consumption-based tax.

Such considerations suggest that, as with an income tax, computing the current tax's deviations from "the" base of a consumption tax is difficult because deviations cannot always be uniquely determined, making it problematic to do a consistent accounting of the differences between the current tax base and a consumption tax base. Nonetheless, Appendix Table 2 attempts a classification based on the judgments outlined above.

Treatment of Major Tax Expenditures under a Comprehensive Consumption Baseline

As noted above, the major difference between a comprehensive consumption tax and a comprehensive income tax is in the treatment of saving, or in the taxation of capital income. Consequently, many current tax expenditures related to preferential taxation of capital income would not be tax expenditures under a consumption tax. However, preferential treatment of items of income that is unrelated to saving or investment incentives would remain tax expenditures under a consumption baseline. In addition, several official tax expenditures relating to items of income and expense are difficult to classify properly, while others may serve as proxies for properly measured tax expenditures.

Appendix Table 2 shows thirty large tax expenditures from the Budget classified according to whether they would be considered a tax expenditure under a consumption tax. One of the thirty items clearly would be a tax expenditure (shown in panel A) under a consumption tax, while an additional six (those in panel B) probably would be tax expenditures.

Exclusion of workers' compensation benefits allows an exclusion from income that is unrelated to investment, and so should be included in the base of a comprehensive consumption tax.

In one respect the deductibility of home mortgage interest is a strong candidate for inclusion as a tax expenditure. A consumption tax would seek to tax the entire value of the flow of services from housing, and so would not allow a deduction for home mortgage interest. This would be the case regardless of whether the tax base included the annual flow of housing services, or instead used a tax-prepayment or yield exemption approach (discussed more completely below) to taxing housing services. A deduction for interest would be allowed under a consumption tax applied to both real and financial cash flows, but current law does not require the homeowner to take into income the proceeds of a home loan, nor does it allow a deduction for principal repayments.

From another perspective, however, the home mortgage interest deduction would not be a tax expenditure under a consumption tax. Under a consumption tax, the interest income accruing to the mortgage lender generally would not be taxed (at least in present value terms). As interest income is subject to tax under current law, the homeowner's mortgage interest deduction could be viewed as counterbalancing the lender's inclusion, eliminating interest flows from the tax base, as would be appropriate under many types of consumption taxes.[25]

The deductibility of property taxes on owner-occupied housing also is a strong candidate for inclusion as a tax expenditure under a consumption tax baseline, although there is a bit of ambiguity. Property taxes would be deducted under a consumption tax under which the base allowed expensing of the cost of the house and included the rental value of the house in the annual tax base. But, as discussed above in the income tax section, this deduction nonetheless is a strong candidate for inclusion as a tax expenditure because the current tax system does not impute the consumption value of housing services to the homeowner's tax base.

Under a consumption tax based on the yield exemption or tax prepayment approach to housing, property taxes would not be deducted by the homeowner because the cash flows (positive and negative) related to the investment are simply ignored for tax purposes—they are outside the tax base. Their deduction under current law would represent a tax expenditure. As discussed below, current law's taxation of housing approximates a yield exemption approach; no deduction of the purchase price of the house, no tax on the house's service flow. Consequently, the deduction for property taxes probably would be a tax expenditure relative to a consumption base.

As discussed in the section on comprehensive income, whether the deduction for State and local income taxes gives rise to a tax expenditure under a consumption tax depends on whether the services paid for with these taxes constitute consumption value to the taxpayer. If there is not a firm relationship between the taxes paid and the services received, then the deduction may not be viewed as a tax expenditure.

Property taxes on assets other than housing would seem to be best thought of using the model discussed above for housing. These taxes typically are paid on assets, such as automobiles and boats, yielding a stream of services that current federal tax law fails to impute to income.

The tax expenditures for Social Security benefits discussed in the section on comprehensive income measure a tax benefit relative to a baseline that is somewhere between a comprehensive income tax and a consumption tax. The properly measured tax expenditure relative to a consumption tax baseline would include only those Social Security benefits that are accorded treatment more favorable than that implied by a consumption tax, which would correspond to including 50 percent of Social Security benefits in the recipient's tax base.[26] Thus, the existing tax expenditure is correct conceptually, but is not measured properly relative to a comprehensive income tax. A similar analysis would

[25] One must guard against double counting here, however, to the extent that current law's general taxation of capital income is calculated elsewhere in the tax expenditure budget as a negative tax expenditure.

[26] The current tax expenditure estimates reflect exceptions for low-income taxpayers from the general rule that 85 percent of Social Security benefits are included in the recipient's tax base. The 85 percent inclusion is intended as a simplified mechanism for taxing Social Security benefits as if the Social Security program were a private pension with employee contributions made from after-tax income. Under these tax rules, income earned on contributions made by both employers and employees benefits from tax deferral, but employer contributions also benefit because the employee may exclude them from his taxable income, while the employee's own contributions are included in his taxable income. These tax rules give the equivalent of consumption tax treatment, a zero effective tax rate on the return, to the extent that the original pension contributions are made by the employer, but give less generous treatment to the extent that the original contributions are made by the employee. Income earned on employee contributions is taxed at a low, but positive, effective tax rate. Based on historical calculations, the 85 percent inclusion reflects roughly the outcome of applying these tax rules to a lower-income earner when one-half of the contributions are from the employer and one-half from the employee.

apply to the exclusion of Social Security benefits of dependents and retirees.

There is a strong case for viewing the child tax credit and the earned income tax credit as social welfare programs (transfers). As such, they would be tax expenditures relative to a consumption baseline. These credits could alternatively be viewed as relieving tax on "nondiscretionary" consumption, and so not properly considered a tax expenditure.

The treatment of the items in panel C is less uncertain. Several of these items relate to the costs of medical care or to charitable contributions. As discussed in the previous section of the appendix, there is disagreement within the tax policy community over the extent to which medical care and charitable giving represent consumption items.

There also is the issue of how to tax medical insurance premiums. Under current law, employees may exclude insurance premiums paid for by employers from their income. The self-employed also may exclude (via a deduction) medical insurance premiums from their taxable income. From some perspectives, these premiums should be included in the tax base because they represent consumption. Yet an alternative perspective would support excluding the premium from the tax base as long as the value of any medical services paid for by the insurance policy were included. But even from this alternative perspective, the official tax expenditure might continue to be a tax expenditure under a consumption tax baseline because current law excludes the value of medical services paid with insurance benefits from the employee's taxable income.

Current law does not tax the annual rental value of owner-occupied housing. In contrast, the annual rental value of the housing would be taxed under a consumption tax. Hence, from one perspective, the exclusion of the net annual rental value of owner-occupied housing would be a tax expenditure relative to a consumption tax baseline.

However, a consumption tax that included in its base the annual rental value of housing also would allow the homeowner a deduction for the price of the house in the year it was purchased; the investment in housing would be expensed. Current law fails to allow such a deduction, raising doubt about classifying as a tax expenditure the exclusion of net rental income from owner-occupied housing. Indeed, it is possible to interpret current law as applying the tax pre-payment or yield exemption method to housing, so it is not clear whether the failure to tax the rental income from housing represents a tax expenditure.

The taxation of Social Security benefits for the disabled also is difficult to classify. As discussed in this appendix above, these benefits generally ought to be taxed because they represent purchasing power. However, the associated Social Security taxes ought to be fully deductible, but they are not. Hence the proper treatment is unclear. Moreover, if the insurance model is applied, the taxation of Social Security benefits might be a negative tax expenditure.

The credit for low-income housing acts to lower the tax burden on qualified investment, and so from one perspective would not be a tax expenditure under a consumption tax baseline. However, in some cases the credit is too generous; it can give a negative tax on income from qualified investment rather than the zero tax called for under consumption tax principles. In addition, the credit is very narrowly targeted. Consequently, it could be considered a tax expenditure relative to a consumption tax baseline.

The final panel (D) shows items that are not tax expenditures under a consumption base. Most of these relate to tax provisions that eliminate or reduce the tax on various types of capital income because a zero tax on capital income is consistent with consumption tax principles.

The deduction for U.S. production activities is not classified as a tax expenditure. This reflects the view that it represents a widespread reduction in taxes on capital income or an offset to the corporate income tax. The exception from the passive loss rules probably would not be a tax expenditure because proper measurement of income, and hence of consumption, requires full deduction of losses.

Major Tax Expenditures under a Consumption Tax That Are Excluded from the Current Budget

Several differences between current law and a consumption tax are left off the official tax expenditure list. Additional possible tax expenditures include benefits paid by insurance policies, in-kind benefits from such Government programs as food-stamps, Medicaid, and public housing, and benefits received from charities. Under some theories of a comprehensive consumption tax, the value of leisure and of household production of goods and services would be included as a tax expenditure.

A consumption tax implemented as a tax on gross cash flows would tax all proceeds from sales of capital assets when consumed, rather than just capital gains; because of expensing, taxpayers effectively would have a zero basis. The proceeds from borrowing would be in the base of a consumption tax that also allowed a deduction for repayment of principal and interest, but are excluded from the current tax base. The deduction of business interest expense might be a tax expenditure, since under some forms of consumption taxation interest is neither deducted from the borrower's tax base nor included in the lender's tax base. The personal exemption and standard deduction also might be considered tax expenditures, although they can be viewed differently, e.g., as elements of the basic tax rate schedule.

Negative Tax Expenditures

Importantly, current law also deviates from a consumption tax norm in ways that increase, rather than decrease, tax liability. These provisions are called negative tax expenditures.

A large item on this list would be the inclusion of capital income in the current individual income tax base, including the income earned on inside-build up in Social Security accounts. The revenue from the corporate income tax, or more generally a measure of the double tax on corporate profits, also would be a negative tax expenditure. Depreciation allowances, even if accelerated, would be a negative tax expenditure since consumption tax treatment generally requires expensing. Depending on the treatment of loans, the borrower's inability to deduct payments of principal and the lender's inability to deduct loans might be a negative tax expenditure. The passive loss rules and net operating loss carry-forward provisions also might generate negative tax expenditures, because the change in net worth requires a deduction for losses (consumption = income—the change in net worth). Human capital is a productive asset, and so its cost (e.g., certain education and training expenses, including perhaps costs of college and professional school) should be expensed, but it is not under current law. Certain restrictions under the individual Alternative Minimum Tax as well as the phase-out of personal exemptions and of itemized deductions also might be considered negative tax expenditures. Under some views, the current tax treatment of Social Security benefits paid to the disabled would be a negative tax expenditure.

REVISED ESTIMATES OF SELECTED TAX EXPENDITURES

Accelerated Depreciation

Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. In the past, tax expenditure estimates of accelerated depreciation under the normal tax law baseline compared tax allowances based on the historic cost of an asset with allowances calculated using the straight-line method over relatively long recovery periods. Normal law allowances also were determined by the historical cost of the asset and so did not adjust for inflation, although such an adjustment is required when measuring economic depreciation, the age related fall in the real value of the asset.

Beginning with the 2004 Budget, the tax expenditures for accelerated depreciation under the normal law concept have been recalculated using as a baseline depreciation rates and replacement cost indexes from the National Income and Product Accounts.[27] The revised estimates are intended to approximate the degree of acceleration provided by current law over a baseline determined by real, inflation adjusted, and economic depreciation. Current law depreciation allowances for machinery and equipment include the benefits of a temporary expensing provision.[28] The estimates are shown in tables in the body of the main text, e.g., Table 19–1.

Owner-Occupied Housing

A homeowner receives a flow of housing services equal in gross value to the rent that could have been earned had the owner chosen to rent the house to others. Comprehensive income would include in the homeowner's tax base this gross rental flow, and would allow the homeowner a deduction for expenses such as interest, depreciation, property taxes, and other costs associated with earning the rental income. Thus, a comprehensive tax base would include in its base the homeowner's implicit net rental income (gross income minus deductions) earned on investment in owner-occupied housing.

In contrast to a comprehensive income tax, current law makes no imputation for gross rental income and allows no deduction for depreciation or for other expenses, such as utilities and maintenance. Current law does, however, allow a deduction for home mortgage interest and for property taxes. Consequently, relative to a comprehensive income baseline, the total tax expenditure for owner-occupied housing is the sum of tax on net rental income plus the tax saving from the deduction for property taxes and for home mortgage interest.[29]

Prior to 2006, the official list of tax expenditures did not include the exclusion of net implicit rental income on owner-occupied housing. Instead, it included as tax expenditures deductions for home mortgage interest and for property taxes. While these deductions are legitimately considered tax expenditures, given current law's failure to impute rental income, they are highly flawed as estimates of the total income tax advantage to housing; they overlook the additional exclusion of implicit net rental income. To the extent a homeowner owns his house outright, unencumbered by a mortgage, he would have no home mortgage interest deduction, yet he still would enjoy the benefits of receiving tax free the implicit rental income earned on his house. On the other hand, a homeowner with a mortgage approximately matching the value of the house might make interest payments that exceed the implicit rental income. The treatment of owner-occupied housing has been revised beginning in the 2006 budget, which now includes an item for the exclusion of net rental income of homeowners.[30]

[27] See Barbara Fraumeni, "The Measurement of Depreciation in the U.S. National Income and Product Accounts," in Survey of Current Business 77 No. 7 (Washington, D.C.: Department of Commerce, Bureau of Economic Analysis, July, 1997), pp. 7–42, and the National Income and Product Accounts of the United States, Table 7.6, "Chain-type Quantity and Price Indexes for Private Fixed Investment by Type," U.S. Department of Commerce, Bureau of Economic Analysis.

[28] The temporary provision allows 30 percent of the cost of a qualifying investment to be deducted immediately rather than capitalized and depreciated over time. It is generally effective for qualifying investments made after September 10, 2001 and before September 11, 2004. The Jobs and Growth Tax Relief Reconciliation Act of 2003 raised the deduction to 50 percent depreciation (up from 30 percent) of the cost new equipment purchased after May 5, 2003 and placed into service before January 1, 2005. Qualifying investments generally are limited to tangible property with depreciation recovery periods of 20 years or less, certain software, and leasehold improvements, but this set of assets corresponds closely to machinery and equipment.

[29] The homeowner's tax base under a comprehensive income tax is net rents. Under current law, the homeowner's tax base is -(interest + property taxes). The tax expenditure base is the difference between the comprehensive income base and current law's tax base, which for homeowners is the sum of net rents plus interest plus property taxes.

[30] This estimate combines the positive tax expenditure for the failure to impute rental income with the negative tax expenditure for the failure to allow a deduction for depreciation and other costs.

Appendix Table 3, as well as the tables in the body of the main text, e.g., Tables 19–1 and 19–2, show estimates of the tax expenditure caused by the exclusion of implicit net rental income from investment in owner-occupied housing. This estimate starts with the NIPA calculated value of gross rent on owner-occupied housing, and subtracts interest, taxes, economic depreciation, and other costs in arriving at an estimate of net-rental income from owner-occupied housing.[31]

Accrued Capital Gains

Under a comprehensive income baseline, all real gains would be taxed as accrued. These gains would be taxed as ordinary income rather than at preferential rates. There would be no deferred unrealized gains on assets held at death, nor gains carried over on gifts, or other preferential treatments. Indeed, all of the provisions related to capitals gains listed in the tax expenditure budget would be dropped. Instead, in their place the difference between the ordinary tax on real gains accrued and the actual tax paid would be calculated. For 1999, for instance, the tax on real accrued gains on corporate equity is estimated at $594 billion. This compares to an estimated tax on realized gains of $62 billion, for forgone revenues of $562 billion. However, this forgone revenue may easily turn into a revenue gain given the limits on capital losses. For 2000, for instance, real accrued losses in corporate equity amounted to $1.4 trillion. Yet, taxpayers paid an estimated $70 billion in capital gains taxes. This roughly translates into an overpayment of taxes to the tune of $464 billion.

Double Tax on Corporate Profits

A comprehensive income tax would tax all sources of income once. Taxes would not vary by type or source of income.

[31] National Income and Production Accounts, Table 2.4.

In contrast to this benchmark, current law taxes income that shareholders earn on investment in corporate stocks at least twice, and at combined rates that generally are higher than those imposed on other sources of income. Corporate profits are taxed once at the company level under the corporation income tax. They are taxed again at the shareholder level when received as a dividend or recognized as a capital gain. Corporate profits can be taxed more then twice when they pass through multiple corporations before being distributed to noncorporate shareholders. Corporate level taxes cascade because corporations are taxed on capital gains they realize on the sale of stock shares and on some dividend income received. Compared to a comprehensive income tax, current law's double (or more) tax on corporate profits is an example of a negative tax expenditure because it subjects income to a larger tax burden than implied by a comprehensive income baseline.

Appendix A Table 3 provides an estimate of the negative tax expenditure caused by the multiple levels of tax on corporate profits. This negative tax expenditure is measured as the shareholder level tax on dividends paid and capital gains realized out of earnings that have been fully taxed at the corporate level. It also includes the corporate tax paid on inter-corporate dividends and on corporate capital gains attributable to the sale of stock shares. The estimate includes the reduction in the dividends and capital gains tax rates enacted in JGTRRA.

The negative tax expenditure is large in magnitude; it exceeds $41 billion in the years 2007 through 2013. It is comparable in size (but opposite in sign) to all but the largest official tax expenditures. JGTRRA reduced but did not eliminate the double tax on corporate profits.

Appendix Table 1. COMPARISON OF CURRENT TAX EXPENDITURES WITH THOSE IMPLIED BY A COMPREHENSIVE INCOME TAX [1]

Description	Revenue Effect 2009
A. Tax Expenditure Under a Comprehensive Income Tax	
Capital gains (except agriculture, timber, iron ore, and coal)	55,940
Net exclusion of pension contributions and earnings: 401(k) plans	51,000
Net exclusion of pension contributions and earnings: Employer plans	45,670
Accelerated depreciation of machinery and equipment (normal tax method)	44,120
Capital gains exclusion on home sales	34,710
Exclusion of interest on public purpose State and local bonds	25,900
Exclusion of interest on life insurance savings	23,500
Deferral of income from controlled foreign corporations (normal tax method)	13,780
Net exclusion of pension contributions and earnings: Keogh plans	13,000
Accelerated depreciation on rental housing (normal tax method)	11,760
Net exclusion of pension contributions and earnings: Individual Retirement Accounts	11,700
Exclusion of net imputed rental income on owner-occupied housing	7,550
Exclusion of workers' compensation benefits	5,920
Credit for low-income housing investments	5,780
Expensing of research and experimentation expenditures (normal tax method)	4,990
B. Possibly a Tax Expenditure Under a Comprehensive Income Tax, But With Some Qualifications	
Deductibility of mortgage interest on owner-occupied homes	100,810
Step-up basis of capital gains at death	36,750
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	33,200
Child credit	29,950
Exclusion of Social Security benefits for retired workers	18,640
Deductibility of State and local property tax on owner-occupied homes	16,640
Deduction for U.S. production activities	15,330
Earned income tax credit	5,440
C. Uncertain	
Exclusion of employer contributions for medical insurance premiums and medical care	168,460
Deductibility of charitable contributions, other than education and health	46,980
Deductibility of medical expenses	5,920
Social Security benefits for the disabled	5,810
Deductibility of charitable contributions, health	5,300
Deductibility of charitable contributions, education	5,270
D. Probably Not a Tax Expenditure Under a Comprehensive Income Tax	
Exception from passive loss rules for $25,000 of rental loss	8,840

[1] The measurement of certain tax expenditures under a comprehensive income tax baseline may differ from the official budget estimate even when the provision would be a tax expenditure under both baselines.Source: Table 19–2, Tax Expenditure Budget.

Appendix Table 2. COMPARISON OF CURRENT TAX EXPENDITURES WITH THOSE IMPLIED BY A COMPREHENSIVE CONSUMPTION TAX [1]

Description	Revenue Effect 2009
A. Tax Expenditure Under a Consumption Base	
Exclusion of workers' compensation benefits	5,920
B. Probably a Tax Expenditure Under a Consumption Base	
Deductibility of mortgage interest on owner-occupied homes	100,810
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	33,200
Child credit	29,950
Exclusion of Social Security benefits for retired workers	18,640
Deductibility of State and local property tax on owner-occupied homes	16,640
Earned income tax credit	5,440
C. Uncertain	
Exclusion of employer contributions for medical insurance premiums and medical care	168,460
Deductibility of charitable contributions, other than education and health	46,980
Exclusion of net imputed rental income on owner-occupied housing	7,550
Deductibility of medical expenses	5,920
Social Security benefits for disabled	5,810
Credit for low-income housing investments	5,780
Deductibility of charitable contributions, health	5,300
Deductibility of charitable contributions, education	5,270
D. Not a Tax Expenditure Under a Consumption Base	
Capital gains (except agriculture, timber, iron ore, and coal)	55,940
Net exclusion of pension contributions and earnings: 401(k) plans	51,000
Net exclusion of pension contributions and earnings: Employer plans	45,670
Accelerated depreciation of machinery and equipment (normal tax method)	44,120
Step-up basis of capital gains at death	36,750
Capital gains exclusion on home sales	34,710
Exclusion of interest on public purpose State and local bonds	25,900
Exclusion of interest on life insurance savings	23,500
Deduction for U.S. production activities	15,330
Deferral of income from controlled foreign corporations (normal tax method)	13,780
Net exclusion of pension contributions and earnings: Keogh plans	13,000
Accelerated depreciation on rental housing (normal tax method)	11,760
Net exclusion of pension contributions and earnings: Individual Retirement Accounts	11,700
Exception from passive loss rules for $25,000 of rental loss	8,840
Expensing of research and experimentation expenditures (normal tax method)	4,990

[1] The measurement of certain tax expenditures under a consumption tax baseline may differ from the official budget estimate even when the provision would be a tax expenditure under both baselines.Source: Table 19–2, Tax Expenditure Budget.

Appendix Table 3. REVISED TAX EXPENDITURE ESTIMATES [1]

Provision	Revenue Loss						
	2007	2008	2009	2010	2011	2012	2013
Imputed Rent On Owner-Occupied Housing	3,890	5,440	7,550	10,480	14,540	20,180	28,010
Double Tax on corporate profit [2]	–41,230	–44,340	–46,860	–49,520	–52,340	–55,310	–58,460

[1] Calculations described in the appendix text.
[2] This is a negative tax expenditure, a tax provision that overtaxes income relative to the treatment specified by the baseline tax system.

Appendix B

PERFORMANCE MEASURES AND THE ECONOMIC EFFECTS OF TAX EXPENDITURES

The Government Performance and Results Act of 1993 (GPRA) directs Federal agencies to develop annual and strategic plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Most of these objectives will be achieved through direct expenditure programs. Tax expenditures, however, may also contribute to achieving these goals. This Appendix responds to the report of the Senate Governmental Affairs Committee on GPRA4 [32] calling on the Executive Branch to undertake a series of analyses to assess the effect

[32] Committee on Government Affairs, United States Senate, "Government Performance and Results Act of 1993" (Report 103–58, 1993).

of specific tax expenditures on the achievement of agencies' performance objectives.

Comparison of tax expenditure, spending, and regulatory policies. Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available.[33] Because there is an existing public administrative and private compliance structure for the tax system, the incremental administrative and compliance costs for a tax expenditure may be low in many cases. In addition, some tax expenditures actually simplify the operation of the tax system, (for example, the exclusion for up to $500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities. Spending, regulatory or tax-disincentive policies can also modify behavior, but may have different economic effects. Finally, a variety of tax expenditure tools can be used e.g., deductions, credits, exemptions, deferrals, floors, ceilings; phase-ins; phase-outs; dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range of policy instruments means that tax expenditures can be flexible and can have very different economic effects.

Tax expenditures also have limitations. In many cases they add to the complexity of the tax system, which raises both administrative and compliance costs. For example, personal exemptions, deductions, credits, and phase-outs can complicate filing and decision-making. The income tax system may have little or no contact with persons who have no or very low incomes, and does not require information on certain characteristics of individuals used in some spending programs, such as wealth. These features may reduce the effectiveness of tax expenditures for addressing certain income-transfer objectives. Tax expenditures also generally do not enable the same degree of agency discretion as an outlay program. For example, grant or direct Federal service delivery programs can prioritize activities to be addressed with specific resources in a way that is difficult to emulate with tax expenditures.

Outlay programs have advantages where direct Government service provision is particularly warranted such as equipping and providing the armed forces or administering the system of justice. Outlay programs may also be specifically designed to meet the needs of low-income families who would not otherwise be subject to income taxes or need to file a tax return. Outlay programs may also receive more year-to-year oversight and fine tuning through the legislative and executive budget process. In addition, many different types of spending programs including direct Government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts provide flexibility for policy design. On the other hand, certain outlay programs such as direct Government service provision may rely less directly on economic incentives and private-market provision than tax incentives, which may reduce the relative efficiency of spending programs for some goals. Spending programs also require resources to be raised via taxes, user charges, or Government borrowing, which can impose further costs by diverting resources from their most efficient uses. Finally, spending programs, particularly on the discretionary side, may respond less readily to changing activity levels and economic conditions than tax expenditures.

Regulations have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor) generally in the private sector. Regulations can also be fine-tuned more quickly than tax expenditures because they can often be changed as needed by the Executive Branch without legislation. Like tax expenditures, regulations often rely largely on voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives. This reliance can diminish their economic efficiency, although this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are not of paramount importance. Also, regulations generally do not directly affect Federal outlays or receipts. Thus, like tax expenditures, they may escape the degree of scrutiny that outlay programs receive. However, major regulations are subjected to a formal regulatory analysis that goes well beyond the analysis required for outlays and tax-expenditures. To some extent, the GPRA requirement for performance evaluation will address this lack of formal analysis.

Some policy objectives are achieved using multiple approaches. For example, minimum wage legislation, the earned income tax credit, and the food stamp program are regulatory, tax expenditure, and direct outlay programs, respectively, all having the objective of improving the economic welfare of low-wage workers.

Tax expenditures, like spending and regulatory programs, have a variety of objectives and effects. When measured against a comprehensive income tax, for example, these include: encouraging certain types of activities (e.g., saving for retirement or investing in certain sectors); increasing certain types of after-tax income (e.g., favorable tax treatment of Social Security income); reducing private compliance costs and Government administrative costs (e.g., the exclusion for up to $500,000 of capital gains on home sales); and promoting tax neutrality (e.g., accelerated depreciation in the presence of inflation). Some of these objectives are well suited to quantitative measurement, while others are less well suited. Also, many tax expenditures, including those cited above, may have more than one objective. For example, accelerated depreciation may

[33] Although this chapter focuses upon tax expenditures under the income tax, tax expenditures also arise under the unified transfer, payroll, and excise tax systems. Such provisions can be useful when they relate to the base of those taxes, such as an excise tax exemption for certain types of consumption deemed meritorious.

encourage investment. In addition, the economic effects of particular provisions can extend beyond their intended objectives (e.g., a provision intended to promote an activity or raise certain incomes may have positive or negative effects on tax neutrality).

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the revenue effect. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs.

Thus, for a provision that reduces taxes on certain investment activity, an increase in the amount of investment would likely be a key output. The resulting production from that investment, and, in turn, the associated improvements in national income, welfare, or security, could be the outcomes of interest. For other provisions, such as those designed to address a potential inequity or unintended consequence in the tax code, an important performance measure might be how they change effective tax rates (the discounted present-value of taxes owed on new investments or incremental earnings) or excess burden (an economic measure of the distortions caused by taxes). Effects on the incomes of members of particular groups may be an important measure for certain provisions.

An Overview of Evaluation Issues by Budget Function. The discussion below considers the types of measures that might be useful for some major programmatic groups of tax expenditures. The discussion is intended to be illustrative and not all encompassing. However, it is premised on the assumption that the data needed to perform the analysis are available or can be developed. In practice, data availability is likely to be a major challenge, and data constraints may limit the assessment of the effectiveness of many provisions. In addition, such assessments can raise significant challenges in economic modeling.

National defense. Some tax expenditures are intended to assist governmental activities. For example, tax preferences for military benefits reflect, among other things, the view that benefits such as housing, subsistence, and moving expenses are intrinsic aspects of military service, and are provided, in part, for the benefit of the employer, the U.S. Government. Tax benefits for combat service are intended to reduce tax burdens on military personnel undertaking hazardous service for the Nation. A portion of the tax expenditure associated with foreign earnings is targeted to benefit U.S. Government civilian personnel working abroad by offsetting the living costs that can be higher than those in the United States. These tax expenditures should be considered together with direct agency budget costs in making programmatic decisions.

International affairs. Tax expenditures are also aimed at goals such as tax neutrality. These include the exclusion for income earned abroad by nongovernmental employees and exclusions for income of U.S.-controlled foreign corporations. Measuring the effectiveness of these provisions raises challenging issues.

General science, space and technology; energy; natural resources and the environment; agriculture; and commerce and housing. A series of tax expenditures reduces the cost of investment, both in specific activities such as research and experimentation, extractive industries, and certain financial activities and more generally, through accelerated depreciation for plant and equipment. These provisions can be evaluated along a number of dimensions. For example, it could be useful to consider the strength of the incentives by measuring their effects on the cost of capital (the interest rate which investments must yield to cover their costs) and effective tax rates. The impact of these provisions on the amounts of corresponding forms of investment (e.g., research spending, exploration activity, equipment) might also be estimated. In some cases, such as research, there is evidence that the investment can provide significant positive externalities that is, economic benefits that are not reflected in the market transactions between private parties. It could be useful to quantify these externalities and compare them with the size of tax expenditures. Measures could also indicate the effects on production from these investments such as numbers or values of patents, energy production and reserves, and industrial production. Issues to be considered include the extent to which the preferences increase production (as opposed to benefiting existing output) and their cost-effectiveness relative to other policies. Analysis could also consider objectives that are more difficult to measure but still are ultimate goals, such as promoting the Nation's technological base, energy security, environmental quality, or economic growth. Such an assessment is likely to involve tax analysis as well as consideration of non-tax matters such as market structure, scientific, and other information (such as the effects of increased domestic fuel production on imports from various regions, or the effects of various energy sources on the environment).

Housing investment also benefits from tax expenditures. The imputed net rental income from owner-occupied housing is excluded from the tax base. The mortgage interest deduction and property tax deduction on personal residences also are reported as tax expenditures because the value of owner-occupied housing services is not included in a taxpayer's taxable income. Taxpayers also may exclude up to $500,000 of the capital gains from the sale of personal residences. Measures of the effectiveness of these provisions could include their effects on increasing the extent of home ownership and the quality of housing. Similarly, analysis of the extent of accumulated inflationary gains is likely to be relevant to evaluation of the capital gains for home sales. Deductibility of State and local property taxes assists with making housing more affordable as well as easing the cost of providing community services through these taxes. Provisions intended to promote investment in rental housing could be evaluated for their effects on making such housing more available and affordable. These provisions should then be compared with alternative programs that address housing supply and demand.

Transportation. Employer-provided parking is a fringe benefit that, for the most part, is excluded from taxation. The tax expenditure estimates reflect the cost of parking that is leased by employers for employees; an estimate is not currently available for the value of parking owned by employers and provided to their employees. The exclusion for employer-provided transit passes is intended to promote use of this mode of transportation, which has environmental and congestion benefits. The tax treatments of these different benefits could be compared with alternative transportation policies.

Community and regional development. A series of tax expenditures is intended to promote community and regional development by reducing the costs of financing specialized infrastructure, such as airports, docks, and stadiums. Empowerment zone and enterprise community provisions are designed to promote activity in disadvantaged areas. These provisions can be compared with grants and other policies designed to spur economic development.

Education, training, employment, and social services. Major provisions in this function are intended to promote post-secondary education, to offset costs of raising children, and to promote a variety of charitable activities. The education incentives can be compared with loans, grants, and other programs designed to promote higher education and training. The child credits are intended to adjust the tax system for the costs of raising children; as such, they could be compared to other Federal tax and spending policies, including related features of the tax system, such as personal exemptions (which are not defined as a tax expenditure). Evaluation of charitable activities requires consideration of the beneficiaries of these activities, who are generally not the parties receiving the tax reduction.

Health. Individuals also benefit from favorable treatment of employer-provided health insurance. Measures of these benefits could include increased coverage and pooling of risks. The effects of insurance coverage on final outcome measures of actual health (e.g., infant mortality, days of work lost due to illness, or life expectancy) or intermediate outcomes (e.g., use of preventive health care or health care costs) could also be investigated.

Income security, Social Security, and veterans benefits and services. Major tax expenditures in the income security function benefit retirement savings, through employer-provided pensions, individual retirement accounts, and Keogh plans. These provisions might be evaluated in terms of their effects on boosting retirement incomes, private savings, and national savings (which would include the effect on private savings as well as public savings or deficits). Interactions with other programs, including Social Security, also may merit analysis. As in the case of employer-provided health insurance, analysis of employer-provided pension programs requires imputing the value of benefits funded at the firm level to individuals.

Other provisions principally affect the incomes of members of certain groups, rather than affecting incentives. For example, tax-favored treatment of Social Security benefits, certain veterans' benefits, and deductions for the blind and elderly provide increased incomes to eligible parties. The earned-income tax credit, in contrast, should be evaluated for its effects on labor force participation as well as the income it provides lower-income workers.

General purpose fiscal assistance and interest. The tax-exemption for public purpose State and local bonds reduces the costs of borrowing for a variety of purposes (borrowing for non-public purposes is reflected under other budget functions). The deductibility of certain State and local taxes reflected under this function primarily relates to personal income taxes (property tax deductibility is reflected under the commerce and housing function). Tax preferences for Puerto Rico and other U.S. possessions are also included here. These provisions can be compared with other tax and spending policies as means of benefiting fiscal and economic conditions in the States, localities, and possessions. Finally, the tax deferral for interest on U.S. savings bonds benefits savers who invest in these instruments. The extent of these benefits and any effects on Federal borrowing costs could be evaluated.

The above illustrative discussion, although broad, is nevertheless incomplete, omitting important details both for the provisions mentioned and the many that are not explicitly cited. Developing a framework that is sufficiently comprehensive, accurate, and flexible to reflect the objectives and effects of the wide range of tax expenditures will be a significant challenge. OMB, Treasury, and other agencies will work together, as appropriate, to address this challenge. As indicated above, over the next few years the Executive Branch's focus will be on the availability of the data needed to assess the effects of the tax expenditures designed to increase savings.

DIMENSIONS OF THE BUDGET

20. COMPARISON OF ACTUAL TO ESTIMATED TOTALS

In successive budgets, the Administration publishes several estimates of the surplus or deficit for a particular fiscal year. Initially, the year appears as an outyear projection at the end of the budget horizon. In each subsequent budget, the year advances in the estimating horizon until it becomes the "budget year." One year later, the year becomes the "current year" then in progress, and the following year, it becomes the just-completed "actual year."

The budget is legally required to compare budget year estimates of receipts and outlays with the subsequent actual receipts and outlays for that year. Part I of this chapter meets that requirement by comparing the actual results for 2007 with the current services estimates shown in the 2007 Budget, published in February 2006.

Part II of the chapter presents a broader comparison of estimates and actual outcomes. This part first discusses the historical record of budget year estimates versus actual results over the last two and a half decades. Second, it lengthens the focus to estimates made for each year of the budget horizon, extending four years beyond the budget year. This longer focus shows that the differences between estimates and the eventual actual results grow as the estimates extend further into the future.

PART I: COMPARISON OF ACTUAL TO ESTIMATED TOTALS FOR 2007

This part of the chapter compares the actual receipts, outlays, and deficit for 2007 with the current services estimates shown in the 2007 Budget, published in February 2006.[1] This part also presents a more detailed comparison for mandatory and related programs, and reconciles the actual receipts, outlays, and deficit totals shown here with the figures for 2007 previously published by the Department of the Treasury.

Receipts

Actual receipts for 2007 were $2,568 billion, $124 billion more than the $2,444 billion current services estimate in the 2007 Budget (February 2006). As shown in Table 20–1, this increase was the net effect of legislative and administrative changes; economic conditions that differed from what had been expected; and technical factors that resulted in different collection patterns and effective tax rates than had been assumed.

Table 20–1. COMPARISON OF ACTUAL 2007 RECEIPTS WITH THE INITIAL CURRENT SERVICES ESTIMATES

(In billions of dollars)

	February 2006 estimate	Enacted legislation/ administrative actions	Different economic conditions	Technical factors	Net change	Actual
Individual income taxes	1,119	–38	7	75	45	1,163
Corporate income taxes	265	–12	15	102	105	370
Social insurance and retirement receipts	884	....	–10	–4	–15	870
Excise taxes	75	–*	–2	–8	–10	65
Estate and gift taxes	24	1	*	1	2	26
Customs duties	29	–1	1	–3	–3	26
Miscellaneous receipts	48	....	2	–3	–1	48
Total receipts	2,444	–49	13	161	124	2,568

* $500 million or less.

Policy differences. Several laws were enacted after February 2006 that reduced 2007 receipts by a net $49 billion. The provisions of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), primarily the increase in the alternative minimum tax (AMT) exemption amount and a modification of the timing of estimated tax payments by corporations, reduced 2007 receipts by a net $34 billion. Enactment of the Tax Relief and Health Care Act of 2006, which extended a number of expired or expiring tax provisions,

[1] The current services concept is discussed in Chapter 25, "Current Services Estimates." For mandatory programs and receipts, the February 2006 current services estimate was based on laws then in place, adjusted to reflect extension of certain expiring provisions in the 2001 and 2003 tax acts. For discretionary programs the current services estimate was based on the current year estimates, excluding one-time emergency appropriations, adjusted for inflation.

reduced 2007 receipts by an additional $16 billion. The effects of other legislative and administrative changes on 2007 receipts were largely offsetting.

Economic differences. Differences between the economic assumptions upon which the current services estimates were based and actual economic performance increased 2007 receipts by a net $13 billion above the February 2006 estimate. Higher-than-expected corporation income tax liability in tax years 2006 and 2007, attributable to higher-than-expected taxable profits, increased collections of 2007 corporation income taxes $15 billion above the February 2006 estimate. Higher-than-anticipated non-wage sources of personal income, which more than offset lower-than-anticipated wages and salaries, were in large part responsible for the increase in individual income taxes of a net $7 billion. These increases in individual and corporation income taxes were partially offset by a $10 billion decrease in social insurance and retirement receipts, attributable in large part to lower-than-expected wages and salaries. Differences between anticipated and actual economic performance increased other sources of receipts by a net $1 billion.

Technical reestimates. Technical factors increased receipts by a net $161 billion above the February 2006 current services estimate. This net increase was in large part attributable to higher-than-expected collections of individual and corporation income taxes and estate and gift taxes, which were partially offset by lower-than-expected collections of other sources of receipts. Different collection patterns and effective tax rates than assumed in February 2006 were primarily responsible for the higher-than-anticipated collections of individual and corporation income taxes of $75 billion and $102 billion, respectively. Greater-than-anticipated numbers and values of taxable estates increased 2007 receipts an additional $1 billion above the February 2006 estimate. Court decisions that effectively invalidated part of the Federal telephone tax were in large part responsible for the $8 billion reduction in excise tax collections relative to the February 2006 estimate. Technical factors reduced collections of the remaining sources of receipts (social insurance and retirement receipts, customs duties and miscellaneous receipts) below the February 2006 estimates by smaller amounts.

Outlays

Outlays for 2007 were $2,730 billion, $30 billion more than the $2,701 billion current services estimate in the 2007 Budget (February 2006).

Table 20–2 distributes the $30 billion net increase in outlays among discretionary and mandatory programs and net interest.[2] The table also makes rough estimates according to three reasons for the changes: policy; economic conditions; and technical estimating differences, a residual.

Policy changes are the result of legislative actions that change spending levels, primarily through higher or lower appropriations or changes in authorizing legislation, which may themselves reflect responses to changed economic conditions. For 2007, policy changes increased outlays by an estimated $133 billion relative to the initial current services estimates.

Policy changes increased discretionary outlays by $124 billion. Defense discretionary outlays increased by $105 billion and nondefense discretionary outlays increased by $19 billion. A significant portion of both defense and nondefense outlay increases resulted from enactment of emergency supplemental appropriation acts for defense, the Global War on Terror, veterans' care, and hurricane recovery in 2006 and 2007. Policy changes increased mandatory outlays by a net $6 billion

[2] Discretionary programs are controlled by annual appropriations, while mandatory programs are generally controlled by authorizing legislation. Mandatory programs are mostly formula benefit or entitlement programs with permanent spending authority that depend on eligibility criteria, benefit levels, and other factors.

Table 20–2. COMPARISON OF ACTUAL 2007 OUTLAYS WITH THE INITIAL CURRENT SERVICES ESTIMATES

(Outlays in billions)

	Current Services (Feb. 2006)	Changes				Actual
		Policy	Economic	Technical	Total changes	
Discretionary:						
Defense	463	105	....	–18	86	549
Nondefense	500	19	....	–25	–7	493
Subtotal, discretionary	962	124	....	–44	80	1,042
Mandatory:						
Social Security	581	....	3	–3	*	581
Medicare and Medicaid	589	3	–1	–29	–28	561
Other programs	324	3	1	–19	–16	308
Subtotal, mandatory	1,495	6	2	–51	–44	1,451
Net interest	244	4	3	–14	–7	237
Total outlays	2,701	133	6	–109	30	2,730

* $500 million or less.

above current law. This increase reflects a $3.5 billion increase in outlays for the Commodity Credit Corporation, enacted in the Emergency Supplemental Appropriations and Additional Supplemental Appropriations for Agriculture and Other Emergency Assistance Act for 2007, and a $3 billion increase in Medicare outlays, enacted in the Tax Relief and Health Care Act of 2006. Debt service costs associated with the policy receipt and outlay changes were $4 billion.

Economic conditions that differed from those forecast in February 2006 resulted in a net increase in outlays of $6 billion. The most significant changes consist of a $3 billion increase in Social Security benefits largely resulting from higher cost-of-living adjustments and a $3 billion increase in net interest due to higher-than-expected interest rates.

Technical estimating differences and other changes resulted in a net decrease in outlays of $109 billion. Technical changes result from changes in such factors as the number of beneficiaries for entitlement programs, crop conditions, or other factors not associated with policy changes or economic conditions. Outlays for discretionary programs decreased an estimated $44 billion, because budget authority for both defense and nondefense programs was spent more slowly than expected. Outlays for mandatory programs decreased a net $51 billion, largely due to lower-than-anticipated outlays for Medicare, Medicaid, and the Commodity Credit Corporation. Net interest outlays also decreased by $14 billion due to technical factors compared to the February 2006 estimates.

Deficit

The preceding two sections discussed the differences between the initial current services estimates and the actual amounts of Federal Government receipts and outlays for 2007. This section combines these effects to show the net deficit impact of these differences.

As shown in Table 20–3, the 2007 current services deficit was initially estimated to be $257 billion. The actual deficit was $162 billion, which was a $95 billion decrease from the initial estimate. Receipts were $124 billion more than the initial estimate and outlays were $30 billion more. The table shows the distribution of the changes according to the categories in the preceding two sections.

The net effect of policy changes for receipts and outlays increased the deficit by $183 billion. Economic conditions that differed from the initial assumptions in February 2006 accounted for an estimated $7 billion decrease in the deficit. Technical factors reduced the deficit by an estimated $270 billion.

Comparison of the Actual and Estimated Outlays for Mandatory and Related Programs

This section compares the original 2007 outlay estimates for mandatory and related programs under current law in the 2007 Budget (February 2006) with the actual outlays. Major examples of these programs include Social Security and Medicare benefits, agricultural price support payments to farmers, and deposit insurance for banks and thrift institutions. This category also includes net interest outlays and undistributed offsetting receipts.

A number of factors may cause differences between the amounts estimated in the budget and the actual mandatory outlays. For example, legislation may change benefit rates or coverage; the actual number of beneficiaries may differ from the number estimated; or economic conditions (such as inflation or interest rates) may differ from what was assumed in making the original estimates.

Table 20–4 shows the differences between the actual outlays for these programs in 2007 and the amounts originally estimated in the 2007 Budget, based on laws in effect at that time. Actual outlays for mandatory spending and net interest in 2007 were $1,688 billion, which was $50 billion less than the initial estimate of $1,738 billion, based on existing law in February 2006.

As Table 20–4 shows, actual outlays for mandatory human resources programs were $1,525 billion, $28 billion less than originally estimated. This decrease was the net effect of legislative action, differences between actual and assumed economic conditions, differences between the anticipated and actual number of beneficiaries, and other technical differences. Outlays for other functions were $24 billion less than originally estimated. Undistributed offsetting receipts were $9 billion lower than expected, thus increasing total outlays.

Outlays for net interest were $237 billion or $7 billion less than the original estimate. This decrease was the net effect of changes in interest rates from those ini-

Table 20–3. COMPARISON OF THE ACTUAL 2007 DEFICIT WITH THE INITIAL CURRENT SERVICES ESTIMATE

(In billions)

	Current Services (Feb. 2006)	Changes: Policy	Economic	Technical	Total changes	Actual
Receipts	2,444	–49	13	161	124	2,568
Outlays	2,701	133	6	–109	30	2,730
Deficit	257	183	–7	–270	–95	162

Note: Deficit changes are outlays minus receipts. For these changes, a plus indicates an increase in the deficit.

Table 20–4. COMPARISON OF ACTUAL AND ESTIMATED OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW

(In billions of dollars)

	2007		
	Feb. 2006 estimate	Actual	Change
Mandatory outlays:			
Human resources programs:			
Education, training, employment, and social services	10	12	2
Health:			
Medicaid	199	191	–9
Other	22	23	1
Total health	221	214	–7
Medicare	390	371	–19
Income security:			
Retirement and disability	111	111	1
Unemployment compensation	38	32	–5
Food and nutrition assistance	49	49	–*
Other	114	117	3
Total, income security	312	310	–2
Social security	581	581	*
Veterans benefits and services:			
Income security for veterans	36	36	–*
Other	3	2	–1
Total veterans benefits and services	39	38	–2
Total mandatory human resources programs	1,554	1,525	–28
Other functions:			
Agriculture	21	12	–9
International	–2	–6	–4
Deposit insurance	–2	–1	*
Other functions	15	4	–11
Total, other functions	32	8	–24
Undistributed offsetting receipts:			
Employer share, employee retirement	–62	–62	*
Rents and royalties on the outer continental shelf	–9	–7	3
Other undistributed offsetting receipts	–20	–14	6
Total undistributed offsetting receipts	–91	–82	9
Total, mandatory	1,495	1,451	–44
Net interest:			
Interest on Treasury debt securities (gross)	438	430	–8
Interest received by trust funds	–181	–178	3
Other interest	–13	–15	–2
Total net interest	244	237	–7
Total outlays for mandatory and net interest	1,738	1,688	–50

* $500 million or less.

tially assumed, changes in borrowing requirements due to differences in deficits, and technical factors.

Reconciliation of Differences with Amounts Published by Treasury for 2007

Table 20–5 provides a reconciliation of the receipts, outlays, and deficit totals published by the Department of the Treasury in the September 2007 Monthly Treasury Statement and those published in this Budget. The Department of the Treasury made adjustments to the estimates for the Combined Statement of Receipts, Outlays, and Balances, which increased receipts by $2 million and decreased outlays by $6 million. Additional adjustments for this Budget increased receipts by $566 million and decreased outlays by $258 million. Several financial transactions that are not reported to the Department of the Treasury, including those for the Affordable Housing Program, the Public Company Accounting Oversight Board, the Electric Reliability Organization, and the United Mine Workers of America benefit funds, are included in the budget. Reporting for these programs adds roughly equivalent amounts to outlays and receipts, with little impact on the deficit. Another significant conceptual difference in reporting is for the National Railroad Retirement Investment Trust (NRRIT). Reporting to the Department of the Treasury for the NRRIT is done with a one month lag so that the fiscal year total provided in the Treasury Combined Statement covers September 2006 through August 2007. The budget has been adjusted to reflect transactions that occurred during the actual fiscal year, which begins in October.

Table 20–5. RECONCILIATION OF FINAL AMOUNTS FOR 2007

(In millions of dollars)

	Receipts	Outlays	Deficit
Totals published by Treasury (September 30 MTS)	2,567,671	2,730,505	–162,834
Miscellaneous Treasury adjustments	2	–6	8
Totals published by Treasury in Combined Statement	2,567,673	2,730,499	–162,826
Affordable Housing Program	315	315	....
Public Company Accounting Oversight Board	122	122	....
Electric Reliability Organization	65	65	....
United Mine Workers of America benefit funds	44	49	–5
National Railroad Retirement Investment Trust	....	–782	782
Other	20	–27	47
Total adjustments, net	566	–258	824
Totals in the budget	2,568,239	2,730,241	–162,002
MEMORANDUM:			
Total change since year-end statement	568	–264	832

PART II: HISTORICAL COMPARISON OF ACTUAL TO ESTIMATED SURPLUSES OR DEFICITS

This part of the chapter compares estimated surpluses or deficits to actual outcomes over the last two and a half decades. The first section compares the estimate for the budget year of each budget with the subsequent actual result. The second section extends the comparison to the estimated surpluses or deficits for each year of the budget window: that is, for the current year through the fourth year following the budget year. This part concludes with some observations on the historical record of estimates of the surplus or deficit versus the subsequent actual outcomes.

Historical Comparison of Actual to Estimated Results for the Budget Year

Table 20–6 compares the estimated and actual surpluses or deficits since the deficit estimated for 1982 in the 1982 Budget. The estimated surpluses or deficits for each budget include the Administration's policy proposals. Therefore, the original deficit estimate for 2006 differs from that shown in Table 20–3, which is on a current services basis. Earlier comparisons of actual and estimated surpluses or deficits were on a policy basis, so for consistency the figures in Table 20–6 are on this basis.

On average, the estimates for the budget year underestimated actual deficits (or overestimated actual surpluses) by $12 billion over the 26-year period. Policy outcomes that differed from the original proposals increased the deficit by an average of $36 billion. Differences between economic assumptions and actual economic performance increased the deficit an average of $11 billion. Differences due to these two factors were partly offset by technical revisions, which reduced the deficit an average of $35 billion.

The relatively small average difference between actual and estimated deficits conceals a wide variation in the differences from budget to budget. The differences ranged from a $389 billion underestimate of the deficit to a $192 billion overestimate. The $389 billion underestimate, in the 2002 Budget, was due largely to receipt shortfalls related to the 2001 recession and associated weak stock market performance. About a quarter of the underestimate was due to increased spending for recovery from the September 11, 2001 terrorist attacks, homeland security measures, and the war on terror, along with lower receipts due to tax relief in the March 2002 economic stimulus act. As discussed above, the $192 billion overestimate of the deficit in the 2007 Budget stemmed largely from higher-than-anticipated collections of individual and corporation income taxes due to different collection patterns and effective tax rates than initially assumed, as well as lower-than-expected outlays due to technical factors.

Because the average deficit difference obscures the degree of under- and overestimation in the historical

Table 20–6. COMPARISON OF ESTIMATED AND ACTUAL SURPLUSES OR DEFICITS SINCE 1982

(In billions of dollars)

Budget	Surplus or deficit (–) estimated for budget year [1]	Differences due to			Total difference	Actual surplus or deficit(–)
		Enacted legislation	Economic factors	Technical factors		
1982	–62	15	–70	–11	–66	–128
1983	–107	–12	–67	–22	–101	–208
1984	–203	–21	38	–0	17	–185
1985	–195	–12	–17	12	–17	–212
1986	–180	–8	–27	–7	–41	–221
1987	–144	2	–16	8	–6	–150
1988	–111	–9	–19	–16	–44	–155
1989	–130	–22	10	–11	–23	–153
1990	–91	–21	–31	–79	–131	–221
1991	–63	21	–85	–143	–206	–269
1992	–281	–36	–21	48	–9	–290
1993	–350	–8	–13	115	95	–255
1994	–264	–8	16	52	61	–203
1995	–165	–18	1	18	1	–164
1996	–197	6	53	30	89	–107
1997	–140	1	–4	121	118	–22
1998	–121	–9	48	151	190	69
1999	10	–22	56	82	116	126
2000	117	–42	88	73	119	236
2001	184	–129	32	41	–56	128
2002	231	–104	–201	–84	–389	–158
2003	–80	–86	–34	–177	–297	–378
2004	–307	–122	–22	39	–105	–413
2005	–364	–67	–11	123	45	–318
2006	–390	–141	6	277	142	–248
2007	–354	–85	7	270	192	–162
Average		–36	–11	35	–12	
Absolute average [2]		40	38	77	103	
Standard deviation		47	56	104	140	

[1] Surplus or deficit estimate includes the effect of the budget's policy proposals.

[2] Absolute average is the average without regard to sign.

data, a more appropriate statistic to measure the magnitude of the differences is the average absolute difference. This statistic measures the difference without regard to whether it was an under- or overestimate. Since 1982, the average absolute difference has been $103 billion.

Another measure of variability is the standard deviation. This statistic measures the dispersion of the data around the average value. The standard deviation of the deficit differences since 1982 is $140 billion. Like the average absolute difference, this measure illustrates the high degree of variation in the difference between estimates and actual deficits.

The large variability in errors in estimates of the surplus or deficit for the budget year underscores the inherent uncertainties in estimating the future path of the Federal budget. Some estimating errors are unavoidable, because of differences between the President's original budget proposals and the legislation that Congress subsequently enacts. Occasionally such differences are huge, such as additional appropriations for disaster recovery, homeland security, and war efforts in response to the terrorist attacks of September 11, 2001, which were obviously not envisioned in the President's Budget submitted the previous February. Even aside from differences in policy outcomes, errors in budget estimates can arise from new economic developments, unexpected changes in program costs, shifts in taxpayer behavior, and other factors. The budget impact of changes in economic assumptions is discussed further in Chapter 12 of this volume, "Economic Assumptions."

Five-Year Comparison of Actual to Estimated Surpluses or Deficits

The substantial difference between actual surpluses or deficits and the budget year estimates made less than two years earlier raises questions about the degree of variability for estimates of years beyond the budget year. Table 20–7 shows the summary statistics for the differences for the current year (CY), budget year (BY), and the four succeeding years (BY+1 through BY+4). These are the years that are required to be estimated in the budget by the Budget Enforcement Act of 1990.

On average, the budget estimates since 1982 overstated the deficit in the current year by $28 billion, but underestimated the deficit in the budget year by $12 billion. The budget estimates understated the deficit in the years following, by amounts growing from $50 billion for BY+1 to $147 billion for BY+4. While these results suggest a tendency to underestimate deficits toward the end of the budget horizon, the averages are not statistically different from zero in light of the high variation in the data.

Table 20–7. DIFFERENCES BETWEEN ESTIMATED AND ACTUAL SURPLUSES OR DEFICITS FOR FIVE-YEAR BUDGET ESTIMATES SINCE 1982

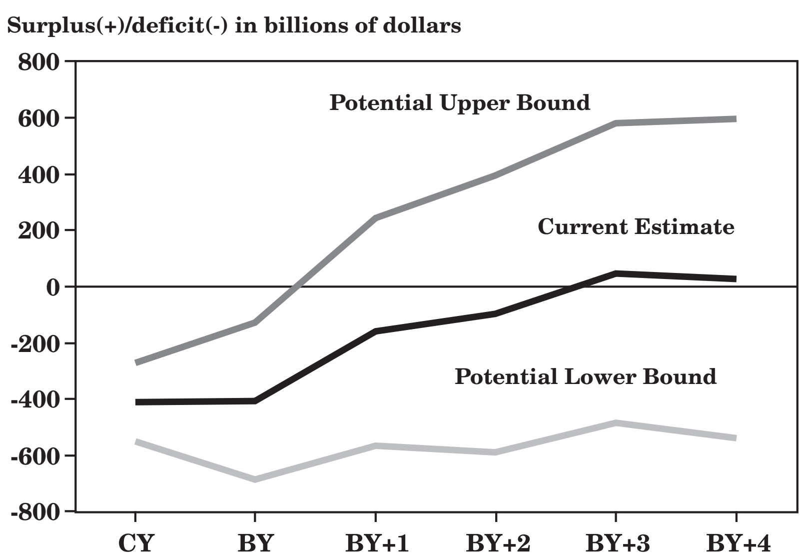
(In billions of dollars)

	Current year estimate	Budget year estimate	Estimate for budget year plus			
			One year (BY+1)	Two years (BY+2)	Three years (BY+3)	Four years (BY+4)
Average difference [1]	28	–12	–50	–89	–122	–147
Average absolute difference [2]	59	103	149	197	235	269
Standard deviation	70	140	202	246	266	284

[1] A positive figure represents an underestimate of the surplus or an overestimate of the deficit.
[2] Average absolute difference is the difference without regard to sign.

The estimates of variability in the difference between estimated and actual deficits can be used to construct a range of uncertainty around a given set of estimates. Statistically, if these differences are normally distributed, the actual deficit will be within a range of two standard deviations above or below the estimate about 90 percent of the time. Chart 20–1 shows this range of two standard deviations applied to the deficit estimates in this Budget. This chart illustrates that unforeseen economic developments, policy outcomes, or other factors could give rise to large swings in the deficit estimates.

Chart 20-1. Illustrative Range of Budget Outcomes



21. OUTLAYS TO THE PUBLIC, GROSS AND NET

Outlays are the measure of Government spending. The Government records outlays when payments are made for such things as Federal employee salaries, purchases of supplies and equipment, grants to State and local governments, and benefits to individuals. The Government's gross outlays are the sum of all these payments. Net outlays equal gross outlays minus certain kinds of receipts or collections (discussed below) that are reported as negative amounts on the outlay side of the budget. The outlay totals in the budget, whether for the Government as a whole or for agencies, programs, and functions (such as national defense), are net outlays, unless otherwise specified.

Two categories of receipts are reported in the budget as offsets (reductions) to outlays, instead of being shown on the receipts side of the ledger:

- Income the Government receives from business-like transactions or market-oriented activities with the public, such as fees charged for admittance to recreational areas, proceeds from sales of electricity by the Power Marketing Administrations, and proceeds from selling land or natural resources. These collections are offset against the payments made by the Government to provide those goods and services, so that the budget totals for receipts and outlays represent governmental rather than market activity.
- Collections for goods and services provided by one Federal Government account to another. The amounts are deducted to avoid double counting outlays—once as outlays of the purchasing agency and again as outlays of the agency providing the goods or services.

As shown at the bottom of Table 21–1, total gross outlays to the public (i.e.; gross outlays adjusted to avoid double-counting of collections from one Federal account to another) were $3,051 billion in 2007, and total net outlays were $2,730 billion. The difference—$321 billion—represents business-like collections from the public, which is deducted from gross outlays. Fees collected by the Postal Service and premiums paid by Medicare recipients are the largest of these collections.

Table 21–1 also shows outlays by major agency, gross and net of business-like collections from the public. These are rough approximations of each agency's transactions with the public. They are not exact because they include payments by each agency to other agencies, net of collections of payments received from other agencies. These payments and collections between agencies net to zero at the total Government level, but not at the individual agency level. Indeed, for 2007 the table shows $260 billion of "undistributed offsetting receipts" in the net outlays column, of which $240 billion are collections of payments between agencies. Thus, the amounts shown for each agency as gross outlays to the public are overstated by $240 billion in total. This has the largest impact on the Department of the Treasury, which shows gross outlays of $507 billion, of which $178 billion is interest outlays to various trust funds that is not distributed by agency in this table.

See the section on "outlays" in Chapter 26, "The Budget System and Concepts," for a more detailed discussion of the outlay totals in the budget. Offsetting collections and offsetting receipts are discussed in more detail in Chapter 18 of this volume, "User Charges and Other Collections." An illustration of the difference between gross receipts and net governmental receipts is shown in Chapter 22 of this volume, "Trust Funds and Federal Funds," Table 22–3.

Table 21–1. TOTAL OUTLAYS, GROSS AND NET OF OFFSETTING COLLECTIONS AND RECEIPTS FROM THE PUBLIC, BY AGENCY, 2007–2009

(In millions of dollars)

Department or Other Unit	2007			2008			2009		
	Outlays Gross of Collections and Receipts from the Public	Offsetting Collections and Receipts from the Public	Net Outlays	Outlays Gross of Collections and Receipts from the Public	Offsetting Collections and Receipts from the Public	Net Outlays	Outlays Gross of Collections and Receipts from the Public	Offsetting Collections and Receipts from the Public	Net Outlays
Legislative Branch	4,374	–66	4,308	4,655	–69	4,586	5,023	–61	4,962
Judicial Branch	6,104	–98	6,006	6,235	–74	6,161	7,060	–79	6,981
Executive Branch									
Department of Agriculture	103,739	–19,302	84,437	113,894	–19,130	94,764	112,213	–17,460	94,753
Department of Commerce	9,130	–2,654	6,476	10,241	–2,090	8,151	11,470	–2,224	9,246
Department of Defense—Military	542,965	–13,090	529,875	595,566	–12,509	583,057	663,603	–12,441	651,162
Department of Education	72,988	–6,616	66,372	75,301	–7,255	68,046	68,116	–4,616	63,500
Department of Energy	26,115	–5,999	20,116	29,947	–6,738	23,209	30,153	–6,828	23,325
Department of Health and Human Services	740,226	–68,191	672,035	782,062	–72,681	709,381	814,399	–75,766	738,633
Department of Homeland Security	49,932	–10,760	39,172	53,580	–11,240	42,340	56,282	–11,985	44,297
Department of Housing and Urban Development	50,341	–4,780	45,561	55,803	–3,534	52,269	47,254	–1,624	45,630
Department of the Interior	16,630	–6,140	10,490	18,077	–6,996	11,081	18,177	–7,938	10,239
Department of Justice	24,264	–915	23,349	26,022	–996	25,026	27,481	–961	26,520
Department of Labor	51,231	–3,687	47,544	53,522	–3,870	49,652	59,534	–5,342	54,192
Department of State	14,969	–1,222	13,747	21,036	–2,144	18,892	24,325	–2,222	22,103
Department of Transportation	62,128	–431	61,697	69,163	–501	68,662	71,437	–333	71,104
Department of the Treasury	506,521	–15,916	490,605	538,698	–18,535	520,163	567,044	–19,243	547,801
Department of Veterans Affairs	78,983	–6,163	72,820	93,049	–6,406	86,643	97,115	–5,300	91,815
Corps of Engineers-Civil Works	4,476	–558	3,918	8,254	–1,043	7,211	9,776	–1,004	8,772
Other Defense Civil Programs	47,129	–16	47,113	49,082	–15	49,067	51,234	–14	51,220
Environmental Protection Agency	8,732	–473	8,259	7,927	–386	7,541	8,433	–434	7,999
Executive Office of the President	2,960	–4	2,956	2,081	–2	2,079	530	–2	528
General Services Administration	901	–870	31	491	–134	357	816	–94	722
International Assistance Programs	30,250	–17,480	12,770	32,251	–17,027	15,224	32,205	–15,754	16,451
National Aeronautics and Space Administration	16,564	–703	15,861	17,556	–238	17,318	18,300	–163	18,137
National Science Foundation	5,532	–3	5,529	6,258	–2	6,256	6,416	–2	6,414
Office of Personnel Management	70,113	–11,663	58,450	76,484	–12,311	64,173	80,238	–13,025	67,213
Small Business Administration	1,994	–819	1,175	1,318	–788	530	865	–40	825
Social Security Administration	629,133	–7,370	621,763	664,332	–7,769	656,563	700,720	–7,937	692,783
Export-Import Bank of the United States	464	–1,829	–1,365	716	–1,200	–484	225	–249	–24
Federal Deposit Insurance Corporation	–406	–592	–998	3,962	–5,546	–1,584	6,898	–9,947	–3,049
Postal Service	79,088	–73,891	5,197	78,005	–76,961	1,044	79,482	–78,322	1,160
Railroad Retirement Board	6,217	–4,734	1,483	6,571	–3,313	3,258	6,876	–1,624	5,252
Other Independent Agencies	26,870	–13,175	13,695	29,729	–13,562	16,167	31,084	–14,535	16,549
Allowances	....	....	....	....	....	....	–495	....	–495
Undistributed Offsetting Receipts	–239,742	–20,464	–260,206	–262,281	–23,300	–285,581	–276,738	–12,627	–289,365
Totals	3,050,915	–320,674	2,730,241	3,269,587	–338,365	2,931,222	3,437,551	–330,196	3,107,355

22. TRUST FUNDS AND FEDERAL FUNDS

When money is received by the Federal Government, it is credited to a budget account, and when money is spent by the Government, it is taken from a budget account. All budget accounts belong to one of two groups of funds: Federal funds and trust funds. This section presents summary information about the transactions of each of these two fund groups. Information is provided about the income and outgo of the major trust funds and a number of Federal funds that are financed by earmarked collections in a manner similar to trust funds.

Federal Funds Group

The Federal funds group accounts for a larger share of the budget than the trust funds group, and includes all transactions that are not required by law to pass through trust funds.

The Federal funds group includes the "general fund," which is the largest fund in the Government and is used to carry out the general purposes of Government rather than being restricted by law to a specific program. The general fund receives all collections not earmarked by law for some other fund, including virtually all income taxes and many excise taxes. Together with Treasury borrowing, the general fund finances all expenditures not financed by earmarked collections.

The Federal funds group also includes special funds and revolving funds, both of which receive earmarked collections for spending on specific purposes. Where the law requires that Federal fund collections be earmarked to finance a particular program, the collections and associated disbursements are recorded in special fund receipt and expenditure accounts. An example is the portion of the Outer Continental Shelf mineral leasing receipts deposited into the Land and Water Conservation Fund. The majority of special fund collections are derived from the Government's power to impose taxes or fines, or otherwise compel payment. Money in these funds must be appropriated before it can be obligated and spent. Although a majority of special fund collections are derived from the Government's power to compel payment, significant amounts of collections credited to special funds are derived from business-like activity, such as the receipts from Outer Continental Shelf mineral leasing.

Revolving funds are used to conduct continuing cycles of business-like activity. Revolving funds receive proceeds collected from the sale of products or services and these proceeds finance spending of the program that provides the products or services. Instead of being deposited in receipt accounts, the programs' proceeds are recorded in the revolving funds, which are expenditure accounts. The proceeds collected in this way are generally available automatically for obligation and expenditure. Outlays for programs with revolving funds are reported net of these proceeds. Because program proceeds offset outlays rather than being recorded as governmental receipts, they are known as "offsetting collections." There are two classes of revolving funds. Public enterprise funds, such as the Postal Service Fund, conduct business-like operations mainly with the public. Intragovernmental funds, such as the Federal Buildings Fund, conduct business-like operations mainly within and between Government agencies.

Trust Funds Group

The trust funds group consists of funds that are designated by law as trust funds. Like special funds and revolving funds, trust funds receive earmarked collections for spending on specific purposes. Many of the larger trust funds are used to finance social insurance payments, such as Social Security, Medicare, and unemployment compensation. Other major trust funds finance military and Federal civilian employees' retirement benefits, highway and transit construction, and airport and airway development. There are a few trust revolving funds that are credited with collections earmarked by law to carry out a cycle of business-type operations. There are also a few small trust funds that have been established to carry out the terms of a conditional gift or bequest.

There is no substantive difference between special funds in the Federal funds group and trust funds or, as noted below, between revolving funds and trust revolving funds. Whether a particular fund is designated in law as a trust fund is, in many cases, arbitrary. For example, the National Service Life Insurance Fund is a trust fund, but the Servicemen's Group Life Insurance Fund is a Federal fund, even though both are financed by earmarked fees paid by veterans and both provide life insurance payments to veterans' beneficiaries.[1]

The meaning of the term "trust" in the Federal Government budget differs significantly from the private sector usage. The beneficiary of a private trust owns the trust's income and may own the trust's assets. A custodian or trustee manages the assets on behalf of the beneficiary according to the stipulations of the trust, which neither the trustee nor the beneficiary can change unilaterally. In contrast, the Federal Government owns the assets and the earnings of most Federal trust funds, and it can unilaterally raise or lower future trust fund collections and payments, or change the purpose for which the collections are used by changing

[1] Another example is the Violent Crime Reduction Trust Fund, established pursuant to the Violent Crime Control and Law Enforcement Act of 1994. Because the Fund is substantively a means of accounting for general fund appropriations, and does not contain any dedicated receipts, it is classified as a Federal fund rather than a trust fund, notwithstanding the presence of the words "Trust Fund" in its official name.

existing law. Only a few small Federal trust funds are managed pursuant to a trust agreement whereby the Government acts as the trustee, and even then the Government generally owns these funds and has some ability to alter the amount deposited into or paid out of these funds. Deposit funds, which are funds held by the Government as a custodian on behalf of some non-governmental entity, are similar to private-sector trust funds. The Government makes no decisions about the amount of money placed in deposit funds or about how the proceeds are spent. Therefore, these funds are considered to be non-budgetary instead of Federal trust funds and are excluded from the Federal budget.

A trust fund must use its income for the purposes designated by law. The income of some trust funds, such as the Federal Employees Health Benefits fund, is spent almost as quickly as it is collected. In other cases, such as the Social Security and the Federal civilian employees' retirement trust funds, considerably less income is currently spent each year than is collected. A surplus of income over outgo adds to the trust fund's balance, which is available to authorize future expenditures. The balances are generally required by law to be invested in Treasury securities.[2]

A trust fund normally consists of one or more receipt accounts (to record income) and an expenditure account (to record outgo). However, a few trust funds, such as the Veterans Special Life Insurance fund, are established by law as trust revolving funds. These funds are similar to revolving funds in the Federal funds group, in that they may consist of a single account to record both income and outgo. They are used to conduct a cycle of business-type operations; offsetting collections are credited to the funds (which are also expenditure accounts) and the fund's outlays are displayed net of the offsetting collections.

Table 22–1. RECEIPTS, OUTLAYS AND SURPLUS OR DEFICIT BY FUND GROUP

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Receipts:							
Federal funds cash income:							
From the public	1,709.8	1,629.6	1,748.7	1,939.0	2,020.4	2,163.0	2,264.9
From trust funds:	18.8	1.9	4.2	1.5	1.6	1.7	1.7
Total, Federal funds cash income	1,728.7	1,631.5	1,752.9	1,940.5	2,022.0	2,164.7	2,266.6
Trust funds cash income:							
From the public	1,012.8	1,056.0	1,098.1	1,146.1	1,206.9	1,264.6	1,329.9
From Federal funds:							
Interest	180.2	200.1	211.4	223.3	239.0	256.6	275.5
Other	318.8	344.0	371.0	383.9	409.0	426.0	464.2
Total, trust funds cash income	1,511.8	1,600.1	1,680.4	1,753.4	1,854.9	1,947.2	2,069.6
Offsetting receipts	–672.2	–710.4	–733.4	–762.5	–800.5	–842.0	–908.0
Total, unified budget receipts	2,568.2	2,521.2	2,699.9	2,931.3	3,076.4	3,269.9	3,428.2
Outlays:							
Federal funds cash outgo	2,139.4	2,324.8	2,454.5	2,424.9	2,465.9	2,511.6	2,612.6
Trust funds cash outgo	1,263.1	1,316.8	1,386.3	1,429.0	1,505.8	1,552.2	1,694.3
Offsetting receipts	–672.2	–710.4	–733.4	–762.5	–800.5	–842.0	–908.0
Total, unified budget outlays	2,730.2	2,931.2	3,107.4	3,091.3	3,171.2	3,221.8	3,398.9
Surplus or deficit (–):							
Federal funds	–410.7	–693.4	–701.6	–484.3	–443.9	–347.0	–345.9
Trust funds	248.7	283.3	294.2	324.3	349.1	395.0	375.3
Total, unified surplus/deficit (–)	–162.0	–410.0	–407.4	–160.0	–94.8	48.1	29.3

Note: Receipts include governmental, interfund, and proprietary receipts, and exclude intrafund receipts (which are offset against intrafund payments so that cash income and cash outgo are not overstated).

[2] The relationships between Treasury securities held by trust funds (and by other Government accounts), debt held by the public, and gross Federal debt are discussed in Chapter 16 of this volume, "Federal Borrowing and Debt."

Income and Outgo by Fund Group

Table 22–1 shows income, outgo, and surplus or deficit by fund group and in the aggregate (netted to avoid double-counting) from which the total unified budget receipts, outlays, and surplus or deficit are derived. The estimates assume enactment of the President's budget proposals. Income consists mostly of receipts (derived from governmental activity—primarily income, payroll, and excise taxes—and gifts). It also consists of offsetting receipts, which include proprietary receipts (derived from business-like transactions with the public) and interfund collections (receipts by one fund of payments from a fund in the other fund group) that are deposited into receipt accounts. Outgo consists of payments made to the public or to a fund in the other fund group.

Two types of transactions are treated specially in the table. First, income and outgo for each fund group net out all transactions that occur between funds within the same fund group.[3] These intrafund transactions constitute outgo and income for the individual funds that make and collect the payments, but they are offsetting for the fund group as a whole. The totals for each fund group measure only the group's transactions with the public and the other fund group. Second, income is computed net of the collections that are offset against outgo in revolving fund expenditure accounts.[4] It would be conceptually appropriate to classify these two types of offsetting collections as income, but at present the data are not tabulated centrally for both fund groups. Consequently, they are offset against outgo in Tables 22–1 and 22–2, and are not shown separately.

Some funds in the Federal funds group and some trust funds are authorized to borrow from the general fund of the Treasury.[5] Borrowed funds are not recorded as receipts of the fund or included in the income of the fund. The borrowed funds finance outlays by the fund in excess of available receipts. Subsequently, the fund's receipts are transferred from the fund to the general fund in repayment of the borrowing. The repayment is not recorded as an outlay of the fund or included in fund outgo.

Some income in both Federal funds and trust funds consists of offsetting receipts. For most budget purposes, offsetting receipts are excluded from receipts fig-

[3] For example, the railroad retirement trust funds pay the equivalent of Social Security benefits to railroad retirees, in addition to the regular railroad pension. These benefits are financed by a payment from the Federal Old-Age and Survivors Insurance trust fund to the railroad retirement trust funds. The payment and collection are both deducted so that total trust fund income and outgo measure disbursements to the public and to Federal funds.

[4] For example, postage stamp fees are deposited as offsetting collections in the Postal Service Fund. As a result, the Fund's outgo is disbursements net of collections.

[5] For example, the Bonneville Power Administration Fund, a revolving fund in the Department of Energy, is authorized to borrow from the general fund, and the Black Lung Disability Trust Fund in the Department of Labor is authorized to receive appropriations of repayable advances from the general fund (a form of borrowing).

Table 22–2. INCOME, OUTGO, AND BALANCES OF TRUST FUNDS GROUP

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Total Trust Funds							
Balance, start of year	3,437.4	3,686.0	3,969.3	4,263.5	4,587.8	4,937.0	5,332.0
Income:							
Governmental receipts	925.6	966.3	1,007.3	1,054.6	1,111.2	1,163.9	1,222.2
Proprietary receipts	100.8	104.1	105.9	107.5	112.7	118.7	126.9
Receipts from Federal funds:							
Interest	180.2	200.1	211.4	223.3	239.0	256.6	275.5
Other	355.4	382.4	411.5	426.3	453.9	473.0	513.7
Subtotal, income	1,562.1	1,652.9	1,736.2	1,811.8	1,916.9	2,012.3	2,138.3
Outgo:							
To the public	1,294.5	1,367.8	1,437.8	1,486.0	1,566.2	1,615.6	1,761.3
Payments to Federal funds	18.8	1.9	4.2	1.5	1.6	1.7	1.7
Subtotal, outgo	1,313.4	1,369.6	1,442.0	1,487.5	1,567.8	1,617.3	1,763.0
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	68.5	83.2	82.8	101.0	110.1	138.4	99.8
Interest	180.2	200.1	211.4	223.3	239.0	256.6	275.5
Subtotal, surplus or deficit (–)	248.7	283.3	294.2	324.3	349.1	395.0	375.3
Adjustments:							
Transfers/lapses (net)	*	–*	....	....	....	....	....
Other adjustments	–0.1	–*	–*	....	....	....	....
Total, change in fund balance	248.6	283.3	294.2	324.3	349.1	395.0	375.3
Balance, end of year	3,686.0	3,969.3	4,263.5	4,587.8	4,937.0	5,332.0	5,707.3

* $50 million or less.

ures and subtracted from gross outlays. There are two reasons for the normal treatment:

- *Business-like or market-oriented activities with the public:* The collections from such activities are deducted from gross outlays, rather than added to receipts, in order to produce budget totals for receipts and outlays that represent governmental rather than market activity.
- *Intragovernmental transactions:* Collections by one Government account from another are deducted from gross outlays, rather than added to receipts, so that the budget totals measure the transactions of the Government with the public.

Because the income for Federal funds and for trust funds recorded in Table 22–1 includes offsetting receipts, those offsetting receipts must be deducted from the two fund groups' combined gross income in order to reconcile to total (net) unified budget receipts. Similarly, because the outgo for Federal funds and for trust funds in Table 22–1 consists of outlays gross of offsetting receipts, the amount of the offsetting receipts must be deducted from the sum of the Federal funds' and the trust funds' gross outgo in order to reconcile to total (net) unified budget outlays. Table 22–3 reconciles, for fiscal year 2007, the gross total of all trust fund and Federal fund receipts with the net total of the Federal fund group's and the trust fund group's cash income (as shown in Table 22–1), and with the unified budget's receipt total.

Income, Outgo, and Balances of Trust Funds

Table 22–2 shows, for the trust funds group as a whole, the funds' balance at the start of each year, income and outgo during the year, and the end of year balance. Income and outgo are divided between transactions with the public and transactions with Federal funds. Receipts from Federal funds are divided between interest and other interfund receipts.

The definitions of income and outgo in this table differ from those in Table 22–1 in one important way. Trust fund collections that are offset against outgo (as offsetting collections) within expenditure accounts instead of being deposited in separate receipt accounts are classified as income in this table, but not in Table 22–1. This classification is consistent with the definitions of income and outgo for trust funds used elsewhere in the budget. It has the effect of increasing both income and outgo by the amount of the offsetting collections. The difference was approximately $50 billion in 2007. Table 22–2, therefore, provides a more transparent summary of trust fund income and outgo.

The trust funds group is expected to have large and growing surpluses over the projection period. As a consequence, trust fund balances are estimated to grow substantially, continuing a trend that has persisted over the past two decades. The size of the anticipated balances is unprecedented and results mainly from changes in the way some trust funds are financed.

Primarily because of these changes, but also because of the impact of real growth and inflation, trust fund

Table 22–3. COMPARISON OF TOTAL FEDERAL FUND AND TRUST FUND RECEIPTS TO UNIFIED BUDGET RECEIPTS, FISCAL YEAR 2007

(In billions of dollars)

Gross trust fund receipts	1,517.2
Gross Federal fund receipts	1,775.4
Total of trust fund receipts and Federal fund receipts	3,292.6
Deduct intrafund receipts (from funds within the same fund group):	
Trust intrafund receipts	–5.4
Federal intrafund receipts	–46.8
Subtotal, intrafund receipts	–52.2
Total trust funds and Federal funds cash income	3,240.5
Deduct offsetting receipts:	
Trust fund receipts from Federal funds:	
Interest in receipt accounts	–178.0
General fund payment to Medicare Parts B and D	–179.2
Employing agencies' payments for pensions, Social Security, and Medicare	–50.2
General fund payments for unfunded liabilities of Federal employees retirement funds	–57.4
Transfer of taxation of Social Security and RRB benefits to OASDI, HI, and RRB	–31.1
Other receipts from Federal funds	–3.1
Subtotal, trust fund receipts from Federal funds	–499.0
Federal fund receipts from trust funds	–18.8
Proprietary receipts	–154.4
Subtotal, offsetting receipts	–672.2
Unified budget receipts	2,568.2

Note: Offsetting receipts are included in cash income for each fund group, but are deducted from outlays in the unified budget.

balances increased tenfold from 1982 to 2000, from $205 billion to $2.1 trillion. The current balances, of $3.7 trillion, are estimated to increase by more than 50 percent by the year 2013, rising to $5.7 trillion.[6] Almost all of these balances are invested in Treasury securities and earn interest. Therefore, they represent the value, in current dollars, of taxes and user fees that have been paid in advance for future benefits and services.

Until the 1980s, most trust funds operated on a pay-as-you-go basis. Taxes and user fees were set at levels high enough to finance program expenditures and administrative expenses, and to maintain prudent reserves, generally defined as being equal to one year's expenditures. As a result, trust fund balances tended to grow at about the same rate as the fund's annual expenditures.

Pay-as-you-go financing was replaced in the 1980s by full or partial advance funding for some of the larger trust funds. In order to partially prefund the Social Security benefits of the "baby-boomers," the Social Security Amendments of 1983 raised payroll taxes above the levels necessary to finance current expenditures. In 1984, a new system was set up to finance military retirement benefits on a full accrual basis. In 1986, full accrual funding of retirement benefits was mandated for Federal civilian employees hired after December 31, 1983. The latter two changes require Federal agencies and their employees to make annual transfer payments to the Federal employees' retirement trust funds in an amount equal to the retirement benefits earned by employees. Since many years will pass between the time when benefits are earned and when they are paid, the trust funds will accumulate substantial balances over time.

These balances are available to finance future benefit payments and other trust fund expenditures, but only in a bookkeeping sense. These funds are not set up to be pension funds, like the funds of private pension plans. The holdings of the trust funds are not assets of the Government as a whole that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury. When trust fund holdings are redeemed to authorize the payment of benefits, the Department of the Treasury will have to finance the expenditure in the same way as any other Federal expenditure: by using then current receipts, by borrowing from the public, or by reducing benefits or other expenditures. The existence of large trust fund balances, therefore, does not, by itself, increase the Government's ability to pay benefits.

From an economic standpoint, the Government is able to prefund benefits only by increasing saving and investment in the economy as a whole. This can be fully accomplished only by simultaneously running trust fund surpluses equal to the actuarial present value of the accumulating benefits while maintaining an unchanged Federal fund deficit, so that the trust fund surplus reduces the unified budget deficit or increases the unified budget surplus. This would reduce Federal borrowing by the amount of the trust funds surplus and increase the amount of national saving available to finance investment. As long as the increase in Government saving is not offset by a reduction in private saving, greater investment would increase future incomes and wealth, which would provide more real economic resources to support the benefits.

Table 22–4 shows estimates of income, outgo, and balances for 2007 through 2013 for the major trust funds. With the exception of transactions between trust funds, the data for the individual trust funds are conceptually the same as the data in Table 22–2 for the trust funds group. As explained previously, transactions between trust funds are shown as outgo of the fund that makes the payment and as income of the fund that collects it in the data for an individual trust fund, but the collections are offset against outgo in the data for the trust fund group as a whole. Additional information for these and other trust funds can be found in the Status of Funds tables in the *Budget Appendix*

Table 22–5 shows income, outgo, and balances of five Federal funds—three revolving funds and two special funds. All these funds are similar to trust funds in that they are financed by earmarked receipts, the excess of income over outgo is invested, the interest earnings add to balances, and the balances remain available to authorize future expenditures. The table is illustrative of the Federal funds group, which includes many other revolving funds and special funds in addition to the ones shown.

[6] The trust fund balances shown here reflect the Administration's proposal to add Personal Retirement Accounts (PRAs) as part of a reform to return the Social Security program to solvency. Because the PRAs would be privately owned, their balances would not be included in the budget or in trust fund balances. Diverting a portion of payroll taxes into PRAs would slow the growth of aggregate trust fund balances in the short term, but in combination with other reforms to restore Social Security to solvency would have a positive effect on trust fund balances in the long run.

Table 22–4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Airport and Airway Trust Fund							
Balance, start of year	10.2	10.1	10.2	8.2	8.0	8.6	9.7
Income:							
Governmental receipts	11.5	11.9	12.6	4.4	4.7	4.9	5.2
Proprietary receipts	0.1	*	*	*	*	*	*
Receipts from Federal funds:							
Interest	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Other	0.2	0.1	....	....	....	....	....
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	12.2	12.5	13.0	4.7	5.0	5.3	5.6
Outgo:							
To the public	12.2	12.4	15.0	5.0	4.5	4.1	4.0
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	12.2	12.4	15.0	5.0	4.5	4.1	4.0
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	–0.5	–0.4	–2.4	–0.6	0.2	0.8	1.2
Interest	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Subtotal, surplus or deficit (–)	–0.1	0.1	–1.9	–0.2	0.5	1.2	1.6
Adjustments:							
Transfers/lapses (net)	....	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	–0.1	0.1	–1.9	–0.2	0.5	1.2	1.6
Balance, end of year	10.1	10.2	8.2	8.0	8.6	9.7	11.4
Federal Civilian Employees Retirement Funds							
Balance, start of year	704.5	716.8	749.2	783.2	818.7	855.2	893.7
Income:							
Governmental receipts	4.2	4.7	4.8	4.7	4.7	5.0	4.9
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	38.1	43.6	45.4	47.0	47.4	48.7	50.5
Other	48.9	49.0	51.4	53.9	56.4	59.2	62.8
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	91.2	97.4	101.5	105.6	108.6	112.8	118.1
Outgo:							
To the public	61.8	65.0	67.6	70.1	72.1	74.3	76.6
Payments to Other funds	17.1	....	....	....	....	....	....
Subtotal, outgo	78.9	65.0	67.6	70.1	72.1	74.3	76.6
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	–25.8	–11.2	–11.5	–11.5	–11.0	–10.2	–8.9
Interest	38.1	43.6	45.4	47.0	47.4	48.7	50.5
Subtotal, surplus or deficit (–)	12.3	32.4	34.0	35.5	36.5	38.5	41.5
Adjustments:							
Transfers/lapses (net)	–*	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	12.3	32.4	34.0	35.5	36.5	38.5	41.5
Balance, end of year	716.8	749.2	783.2	818.7	855.2	893.7	935.2

Table 22–4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Federal Employees Health Benefits Fund							
Balance, start of year	14.8	15.8	16.3	16.8	17.4	18.5	19.3
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	9.4	9.9	10.6	11.4	12.3	13.2	14.2
Receipts from Federal funds:							
Interest	0.7	0.6	0.6	0.7	0.8	0.8	0.8
Other	24.5	25.3	26.9	28.8	31.1	33.0	35.5
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	34.6	35.9	38.1	40.9	44.2	47.0	50.5
Outgo:							
To the public	33.6	35.4	37.6	40.2	43.1	46.2	49.7
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	33.6	35.4	37.6	40.2	43.1	46.2	49.7
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	0.3	–0.1	–0.1	–0.1	0.3	*	–*
Interest	0.7	0.6	0.6	0.7	0.8	0.8	0.8
Subtotal, surplus or deficit (–)	1.0	0.5	0.5	0.6	1.1	0.8	0.8
Adjustments:							
Transfers/lapses (net)	....	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	1.0	0.5	0.5	0.6	1.1	0.8	0.8
Balance, end of year	15.8	16.3	16.8	17.4	18.5	19.3	20.1
Foreign Military Sales Trust Fund							
Balance, start of year	7.9	9.5	9.5	9.5	9.5	9.5	9.5
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	15.8	15.5	15.0	12.5	12.7	12.9	13.1
Receipts from Federal funds:							
Interest	....	....	....	....	....	....	....
Other	....	....	....	....	....	....	....
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	15.8	15.5	15.0	12.5	12.7	12.9	13.1
Outgo:							
To the public	14.2	15.5	15.0	12.5	12.7	12.9	13.1
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	14.2	15.5	15.0	12.5	12.7	12.9	13.1
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	1.6	....	....	....	....	....	....
Interest	....	....	....	....	....	....	....
Subtotal, surplus or deficit (–)	1.6	....	....	....	....	....	....
Adjustments:							
Transfers/lapses (net)	....	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	1.6	....	....	....	....	....	....
Balance, end of year	9.5	9.5	9.5	9.5	9.5	9.5	9.5

Table 22–4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Highway Trust Fund							
Balance, start of year	15.2	15.4	9.4	1.2	–4.6	–6.1	–5.9
Income:							
Governmental receipts	39.4	39.2	39.9	40.7	41.1	41.7	42.3
Proprietary receipts	*	*	*	*	*	*	*
Receipts from Federal funds:							
Interest	....	....	....	....	....	....	....
Other	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, Income	39.4	39.5	40.2	40.9	41.4	41.9	42.6
Outgo:							
To the public	39.3	45.5	48.3	46.7	42.9	41.8	41.8
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, Outgo	39.3	45.5	48.3	46.7	42.9	41.8	41.8
Change in fund balance:							
Surplus or deficit:							
Excluding interest	0.2	–6.1	–8.2	–5.8	–1.5	0.2	0.8
Interest	....	....	....	....	....	....	....
Subtotal, surplus or deficit	0.2	–6.1	–8.2	–5.8	–1.5	0.2	0.8
Adjustments:							
Transfers/lapses (net)	....	–*	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, Change in fund balance	0.2	–6.1	–8.2	–5.8	–1.5	0.2	0.8
Balance, End of Year	15.4	9.4	1.2	–4.6	–6.1	–5.9	–5.1
Medicare: Hospital Insurance (HI) Trust Fund							
Balance, start of year	303.1	311.0	314.6	324.2	343.3	368.6	410.8
Income:							
Governmental receipts	185.1	195.7	200.0	210.3	224.3	237.4	252.7
Proprietary receipts	7.5	7.9	8.3	8.7	9.0	9.4	9.7
Receipts from Federal funds:							
Interest	16.1	16.5	16.1	16.5	17.5	19.2	21.1
Other	15.1	17.2	20.3	21.1	22.6	24.2	26.6
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	223.9	237.4	244.7	256.6	273.5	290.2	310.2
Outgo:							
To the public	207.6	229.6	235.0	237.5	248.1	248.0	268.5
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	207.6	229.6	235.0	237.5	248.1	248.0	268.5
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	0.2	–8.8	–6.5	2.5	7.8	22.9	20.6
Interest	16.1	16.5	16.1	16.5	17.5	19.2	21.1
Subtotal, surplus or deficit (–)	16.3	7.8	9.6	19.0	25.4	42.1	41.7
Adjustments:							
Transfers/lapses (net)	–8.5	–4.1	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	7.8	3.6	9.6	19.0	25.4	42.1	41.7
Balance, end of year	311.0	314.6	324.2	343.3	368.6	410.8	452.5

Table 22–4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Medicare: Supplementary Medical Insurance (SMI) Trust Fund							
Balance, start of year	33.3	47.6	61.7	69.8	73.0	69.2	77.9
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	57.8	61.9	64.8	67.0	70.4	75.0	81.5
Receipts from Federal funds:							
Interest	2.0	3.6	3.2	3.3	3.5	3.7	3.8
Other	179.2	181.0	191.5	198.7	214.0	220.6	245.7
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	239.0	246.5	259.5	269.0	288.0	299.2	331.0
Outgo:							
To the public	233.2	236.5	251.3	265.7	291.8	290.5	327.5
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	233.2	236.5	251.3	265.7	291.8	290.5	327.5
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	3.8	6.4	4.9	–0.1	–7.3	5.0	–0.3
Interest	2.0	3.6	3.2	3.3	3.5	3.7	3.8
Subtotal, surplus or deficit (–)	5.8	10.0	8.1	3.2	–3.8	8.7	3.5
Adjustments:							
Transfers/lapses (net)	8.5	4.1	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	14.3	14.1	8.1	3.2	–3.8	8.7	3.5
Balance, end of year	47.6	61.7	69.8	73.0	69.2	77.9	81.4
Military Retirement Fund							
Balance, start of year	206.0	216.0	248.5	284.3	320.3	360.0	402.5
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	10.6	14.1	16.2	16.2	18.9	20.5	22.5
Other	42.9	63.9	67.4	69.6	72.2	74.9	77.6
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	53.5	78.0	83.7	85.7	91.0	95.4	100.1
Outgo:							
To the public	43.5	45.5	47.8	49.7	51.4	52.9	54.5
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	43.5	45.5	47.8	49.7	51.4	52.9	54.5
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	–0.6	18.4	19.6	19.9	20.8	22.0	23.2
Interest	10.6	14.1	16.2	16.2	18.9	20.5	22.5
Subtotal, surplus or deficit (–)	10.0	32.5	35.9	36.0	39.7	42.5	45.6
Adjustments:							
Transfers/lapses (net)	....	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	10.0	32.5	35.9	36.0	39.7	42.5	45.6
Balance, end of year	216.0	248.5	284.3	320.3	360.0	402.5	448.1

Table 22–4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Railroad Retirement Trust Funds							
Balance, start of year	27.3	30.7	32.5	32.4	32.1	31.7	31.2
Income:							
Governmental receipts	4.3	4.4	4.4	4.5	4.6	4.7	4.8
Proprietary receipts	4.7	3.3	1.6	1.7	1.7	1.7	1.7
Receipts from Federal funds:							
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	0.5	0.6	0.6	0.6	0.7	0.7	0.7
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	9.5	8.3	6.6	6.8	7.0	7.1	7.3
Outgo:							
To the public	9.9	10.3	10.7	11.1	11.5	11.8	12.2
Payments to Other funds	–3.8	–3.9	–3.9	–4.0	–4.1	–4.2	–4.3
Subtotal, outgo	6.0	6.5	6.8	7.1	7.4	7.6	7.9
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	3.4	1.7	–0.2	–0.4	–0.5	–0.5	–0.7
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal, surplus or deficit (–)	3.5	1.8	–0.2	–0.3	–0.4	–0.5	–0.6
Adjustments:							
Transfers/lapses (net)	*	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	3.5	1.8	–0.2	–0.3	–0.4	–0.5	–0.6
Balance, end of year	30.7	32.5	32.4	32.1	31.7	31.2	30.6
Social Security: Old-Age, Survivors and Disability Insurance (OASDI) Trust Funds							
Balance, start of year	1,994.2	2,180.8	2,373.9	2,578.6	2,803.4	3,044.5	3,295.5
Income:							
Governmental receipts	635.1	662.2	695.6	740.2	781.4	818.6	859.1
Proprietary receipts	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from Federal funds:							
Interest	106.0	114.3	121.9	131.4	142.2	154.7	167.2
Other	31.6	31.8	36.7	39.9	43.0	46.5	50.9
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	772.8	808.4	854.2	911.5	966.6	1,019.8	1,077.3
Outgo:							
To the public	581.3	610.4	644.3	681.6	720.3	763.3	841.9
Payments to Other funds	4.8	5.0	5.1	5.2	5.3	5.5	5.6
Subtotal, outgo	586.2	615.3	649.4	686.8	725.5	768.8	847.5
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	80.6	78.8	82.9	93.4	98.9	96.4	62.7
Interest	106.0	114.3	121.9	131.4	142.2	154.7	167.2
Subtotal, surplus or deficit (–)	186.6	193.1	204.8	224.8	241.1	251.1	229.9
Adjustments:							
Transfers/lapses (net)	....	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	186.6	193.1	204.8	224.8	241.1	251.1	229.9
Balance, end of year	2,180.8	2,373.9	2,578.6	2,803.4	3,044.5	3,295.5	3,525.4

Table 22–4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Unemployment Trust Fund							
Balance, start of year	66.6	75.4	84.8	93.7	102.3	110.1	117.3
Income:							
Governmental receipts	41.1	43.4	45.0	44.6	45.0	46.1	47.2
Proprietary receipts	*	*	*	0.6	0.7	0.6	0.6
Receipts from Federal funds:							
Interest	3.2	3.7	4.1	4.5	4.8	5.1	5.4
Other	0.8	0.8	0.8	0.8	0.9	0.9	0.8
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	45.1	47.8	49.9	50.5	51.4	52.6	54.1
Outgo:							
To the public	36.3	38.5	41.0	41.8	43.7	45.4	47.2
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	36.3	38.5	41.0	41.8	43.7	45.4	47.2
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	5.6	5.7	4.8	4.2	2.9	2.2	1.5
Interest	3.2	3.7	4.1	4.5	4.8	5.1	5.4
Subtotal, surplus or deficit (–)	8.8	9.4	8.9	8.7	7.7	7.3	6.9
Adjustments:							
Transfers/lapses (net)	–*	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	8.8	9.4	8.9	8.7	7.7	7.3	6.9
Balance, end of year	75.4	84.8	93.7	102.3	110.1	117.3	124.2
Veterans Life Insurance Trust Funds							
Balance, start of year	12.2	11.8	11.3	10.8	10.2	9.5	8.8
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	0.5	0.5	0.4	0.4	0.4	0.3	0.3
Receipts from Federal funds:							
Interest	0.7	0.7	0.6	0.6	0.5	0.5	0.4
Other	*	*	*	*	*	*	*
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	1.2	1.1	1.1	1.0	0.9	0.8	0.8
Outgo:							
To the public	1.6	1.6	1.6	1.6	1.6	1.5	1.5
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	1.6	1.6	1.6	1.6	1.6	1.5	1.5
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	–1.1	–1.1	–1.2	–1.2	–1.2	–1.2	–1.2
Interest	0.7	0.7	0.6	0.6	0.5	0.5	0.4
Subtotal, surplus or deficit (–)	–0.4	–0.5	–0.5	–0.6	–0.7	–0.7	–0.7
Adjustments:							
Transfers/lapses (net)	....	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	–0.4	–0.5	–0.5	–0.6	–0.7	–0.7	–0.7
Balance, end of year	11.8	11.3	10.8	10.2	9.5	8.8	8.1

Table 22–4. INCOME, OUTGO, AND BALANCES OF MAJOR TRUST FUNDS—Continued

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Other Trust Funds							
Balance, start of year	42.2	45.2	47.5	50.7	54.1	57.7	61.6
Income:							
Governmental receipts	5.0	4.9	5.2	5.3	5.5	5.7	5.8
Proprietary receipts	4.8	5.0	5.1	5.3	5.4	5.5	5.7
Receipts from Federal funds:							
Interest	2.2	2.4	2.6	2.8	3.0	3.1	3.3
Other	11.8	12.4	15.8	12.8	12.8	12.8	12.7
Receipts from Trust funds	....	....	....	....	....	....	....
Receipts adjustments	....	....	....	....	....	....	....
Subtotal, income	23.8	24.7	28.7	26.2	26.7	27.1	27.6
Outgo:							
To the public	20.1	21.6	22.5	22.4	22.7	22.8	22.9
Payments to Other funds	0.7	0.7	3.1	0.4	0.4	0.4	0.5
Subtotal, outgo	20.8	22.4	25.5	22.8	23.1	23.3	23.3
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	0.8	–*	0.6	0.6	0.6	0.7	0.9
Interest	2.2	2.4	2.6	2.8	3.0	3.1	3.3
Subtotal, surplus or deficit (–)	3.0	2.3	3.2	3.4	3.6	3.9	4.2
Adjustments:							
Transfers/lapses (net)	*	....	....	....	....	....	....
Other adjustments	–0.1	–*	–*	....	....	....	....
Total, change in fund balance	3.0	2.3	3.2	3.4	3.6	3.9	4.2
Balance, end of year	45.2	47.5	50.7	54.1	57.7	61.6	65.9

* $50 million or less.

Note: Balances shown include committed and uncommitted cash balances.

Table 22–5. INCOME, OUTGO, AND BALANCES OF SELECTED FEDERAL FUNDS

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Abandoned Mine Reclamation Fund							
Balance, start of year	2.3	2.4	2.4	2.6	2.7	2.9	3.0
Income:							
Governmental receipts	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Other	....	....	....	....	....	....	....
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	0.4	0.4	0.4	0.4	0.5	0.5	0.4
Outgo:							
To the public	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	–*	–*	–*	*	*	–*	–0.1
Interest	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Subtotal, surplus or deficit (–)	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Adjustments:							
Transfers/lapses (net)	....	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Balance, end of year	2.4	2.4	2.6	2.7	2.9	3.0	3.1
National Credit Union Share Insurance Fund							
Balance, start of year	6.7	7.0	7.4	7.8	8.2	8.6	9.0
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Receipts from Federal funds:							
Interest	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Other	....	*	....	....	....	....	....
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Outgo:							
To the public	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	0.1	*–	*	0.1	0.1	0.1	0.1
Interest	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Subtotal, surplus or deficit (–)	0.4	0.3	0.4	0.4	0.4	0.4	0.5
Adjustments:							
Transfers/lapses (net)	....	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	0.4	0.3	0.4	0.4	0.4	0.4	0.5
Balance, end of year	7.0	7.4	7.8	8.2	8.6	9.0	9.5

Table 22–5. INCOME, OUTGO, AND BALANCES OF SELECTED FEDERAL FUNDS—Continued

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Overseas Private Investment Corporation							
Balance, start of year	4.2	4.4	4.6	4.7	4.9	5.1	5.3
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	0.1	*	*	*	*	*	*
Receipts from Federal funds:							
Interest	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	*	*	*	*	*	*	*
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Outgo:							
To the public	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	*	–*	–*	–*	–0.1	–*	–*
Interest	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Subtotal, surplus or deficit (–)	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Adjustments:							
Transfers/lapses (net)	–*	–0.1	–0.1	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Balance, end of year	4.4	4.6	4.7	4.9	5.1	5.3	5.5
Pension Benefit Guaranty Corporation							
Balance, start of year	15.1	14.6	14.3	14.9	16.5	18.5	20.5
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	3.6	3.8	5.2	7.6	8.3	8.9	9.2
Receipts from Federal funds:							
Interest	0.5	0.7	0.8	0.9	1.0	1.1	1.2
Other	....	....	....	....	....	....	....
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, income	4.1	4.6	6.0	8.5	9.3	9.9	10.4
Outgo:							
To the public	4.6	4.9	5.4	6.8	7.3	8.0	8.5
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, outgo	4.6	4.9	5.4	6.8	7.3	8.0	8.5
Change in fund balance:							
Surplus or deficit (–):							
Excluding interest	–0.9	–1.1	–0.2	0.8	1.0	0.9	0.7
Interest	0.5	0.7	0.8	0.9	1.0	1.1	1.2
Subtotal, surplus or deficit (–)	–0.5	–0.3	0.6	1.6	2.0	2.0	1.9
Adjustments:							
Transfers/lapses (net)	–*	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, change in fund balance	–0.5	–0.3	0.6	1.6	2.0	2.0	1.9
Balance, end of year	14.6	14.3	14.9	16.5	18.5	20.5	22.3

Table 22–5. INCOME, OUTGO, AND BALANCES OF SELECTED FEDERAL FUNDS—Continued

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Uniformed services retiree health care fund							
Balance, start of year	84.7	108.5	129.3	150.2	174.1	199.9	227.7
Income:							
Governmental receipts	....	....	....	....	....	....	....
Proprietary receipts	....	....	....	....	....	....	....
Receipts from Federal funds:							
Interest	4.0	4.8	5.8	6.8	8.1	9.5	11.0
Other	27.2	24.4	24.1	26.8	28.3	29.7	31.2
Receipts from Trust funds	....	....	....	....	....	....	....
Subtotal, Income	31.2	29.2	29.9	33.7	36.4	39.2	42.2
Outgo:							
To the public	7.6	8.3	9.0	9.7	10.5	11.4	12.3
Payments to Other funds	....	....	....	....	....	....	....
Subtotal, Outgo	7.6	8.3	9.0	9.7	10.5	11.4	12.3
Change in fund balance:							
Surplus or deficit:							
Excluding interest	19.6	16.1	15.1	17.1	17.7	18.3	18.9
Interest	4.0	4.8	5.8	6.8	8.1	9.5	11.0
Subtotal, surplus or deficit	23.6	20.9	20.8	23.9	25.8	27.8	29.8
Adjustments:							
Transfers/lapses (net)	0.2	....	....	....	....	....	....
Other adjustments	....	....	....	....	....	....	....
Total, Change in fund balance	23.8	20.9	20.8	23.9	25.8	27.8	29.8
Balance, End of Year	108.5	129.3	150.2	174.1	199.9	227.7	257.6

* $50 million or less.
Note: Balances shown include committed and uncommitted cash balances.

23. OFF–BUDGET FEDERAL ENTITIES AND NON–BUDGETARY ACTIVITIES

The Federal Government's activities have far-reaching impacts, affecting the economy and society of the Nation and the world. One of the primary activities of the Government is to allocate resources to meet the Nation's needs. The budget is the Government's financial plan for proposing, deciding, and controlling the allocation of resources. Those financial activities that constitute the direct allocation of resources are included in the budget's measures of receipts and expenditures, and characterized as "budgetary."

Federal Government activities that do not involve the direct allocation of resources in a measurable way are characterized as "non-budgetary" and classified outside of the budget. For example, the budget does not include funds that are privately owned, but held and managed by the Government in a fiduciary capacity, such as the deposit funds owned by Native American Indians. In addition, the budget does not include costs that are borne by the private sector even when those costs result from Federal regulatory activity. Also, although the budget includes the subsidy costs of Federal loan programs, it does not include the other cash flows of these programs that do not involve an allocation of resources by the Government. Non-budgetary activities can be important instruments of Federal policy and are discussed briefly in this chapter and in more detail in other parts of the budget.

The term "off-budget" may appear to be synonymous with "non-budgetary." However, the term "off-budget" has a meaning distinct from "non-budgetary" and, as discussed below, refers to Federal Government activities that are required by law to be excluded from the budget totals.

Off-Budget Federal Entities

The budget of the Federal Government reflects the legal distinction between "on-budget" and "off-budget" entities by showing outlays and receipts for both types of entities separately. Although there is a legal distinction between on-budget and off-budget entities, there is no conceptual difference between the two. The off-budget Federal entities engage in the same basic activities of government as the on-budget entities, and the programs of off-budget entities result in the same kind of spending and receipts as on-budget entities. The "unified budget" reflects the conceptual similarity between on-budget and off-budget entities by showing combined totals of outlays and receipts for both types of entities.

The Federal Government has used the unified budget concept as the foundation for its budgetary analysis and presentation since the 1969 Budget. This concept was developed by the President's Commission on Budget Concepts in 1967. It calls for the budget to include all the Federal Government's programs and all the financial transactions of these programs with the public.

Every year since 1971, however, at least one Federal entity that would otherwise be included in the budget has been declared to be off-budget by law. Such off-budget Federal entities are federally owned and controlled, but their transactions are excluded from the on-budget totals by law. When a Federal entity is off-budget by law, its receipts, outlays, and surplus or deficit are separated from the on-budget receipts, outlays, and surplus or deficit, and its budget authority is also separated from the total budget authority for the on-budget Federal entities.

The off-budget Federal entities currently consist of the two Social Security Trust Funds, Old-Age and Survivors Insurance and Disability Insurance, and the Postal Service Fund. Social Security was classified off-budget as of 1986 and the Postal Service Fund was classified off-budget in 1989.[1] A number of other entities that had been declared off-budget by law at different times before 1986 have been classified on-budget by law since at least 1985.

Table 23–1 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 in order to provide a consistent comparison over time. Entities that were off-budget at one time, but are now on-budget, are classified as on-budget for all years.

[1] The President's 2009 Budget requests appropriations for two new off-budget accounts—the Postal Regulatory Commission and the Office of Inspector General of the United States Postal Service. These appropriations will fund the administrative expenses of these two entities. As in the past, these expenses will be funded by the off-budget Postal Service Fund, but will now be classified as discretionary rather than mandatory, as required by the Postal Accountability and Enhancement Act, P.L. 109–435.

Because Social Security is the largest single program in the unified budget and is classified by law as off-budget, the off-budget accounts comprise a significant part of total Federal spending and receipts. In 2009, off-budget receipts are an estimated 26 percent of total receipts, and off-budget outlays are a smaller, but still significant, percentage of total outlays at 16 percent. The estimated unified budget deficit in 2009 is $407 billion—a $611 billion on-budget deficit partly offset by a $204 billion off-budget surplus. The off-budget surplus consists entirely of the Social Security surplus. Social Security had small deficits or surpluses from its inception through the early 1980s, but since the middle 1980s it has had a large and growing surplus. However, under present law, the surplus is eventually estimated to decline, turn into a deficit and never reach balance again. The long-term challenge of Social Security is discussed in Chapter 13 of this volume, "Stewardship."

Table 23–1. COMPARISON OF TOTAL, ON-BUDGET, AND OFF-BUDGET TRANSACTIONS

(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	666.5	500.4	166.1	851.9	685.7	166.2	–185.4	–185.3	–0.1
1985	734.1	547.9	186.2	946.4	769.4	176.9	–212.3	–221.5	9.2
1986	769.2	569.0	200.2	990.4	806.9	183.5	–221.2	–237.9	16.7
1987	854.4	641.0	213.4	1,004.1	809.3	194.8	–149.7	–168.4	18.6
1988	909.3	667.8	241.5	1,064.5	860.1	204.4	–155.2	–192.3	37.1
1989	991.2	727.5	263.7	1,143.8	932.9	210.9	–152.6	–205.4	52.8
1990	1,032.1	750.4	281.7	1,253.1	1,028.1	225.1	–221.0	–277.6	56.6
1991	1,055.1	761.2	293.9	1,324.3	1,082.6	241.7	–269.2	–321.4	52.2
1992	1,091.3	788.9	302.4	1,381.6	1,129.3	252.3	–290.3	–340.4	50.1
1993	1,154.5	842.5	311.9	1,409.5	1,142.9	266.6	–255.1	–300.4	45.3
1994	1,258.7	923.7	335.0	1,461.9	1,182.5	279.4	–203.2	–258.8	55.7
1995	1,351.9	1,000.9	351.1	1,515.9	1,227.2	288.7	–164.0	–226.4	62.4
1996	1,453.2	1,085.7	367.5	1,560.6	1,259.7	300.9	–107.4	–174.0	66.6
1997	1,579.4	1,187.4	392.0	1,601.3	1,290.7	310.6	–21.9	–103.2	81.4
1998	1,722.0	1,306.2	415.8	1,652.7	1,336.1	316.6	69.3	–29.9	99.2
1999	1,827.6	1,383.2	444.5	1,702.0	1,381.3	320.8	125.6	1.9	123.7
2000	2,025.5	1,544.9	480.6	1,789.2	1,458.5	330.8	236.2	86.4	149.8
2001	1,991.4	1,483.9	507.5	1,863.2	1,516.4	346.8	128.2	–32.4	160.7
2002	1,853.4	1,338.1	515.3	2,011.2	1,655.5	355.7	–157.8	–317.4	159.7
2003	1,782.5	1,258.7	523.8	2,160.1	1,797.1	363.0	–377.6	–538.4	160.8
2004	1,880.3	1,345.5	534.7	2,293.0	1,913.5	379.5	–412.7	–568.0	155.2
2005	2,153.9	1,576.4	577.5	2,472.2	2,070.0	402.2	–318.3	–493.6	175.3
2006	2,407.3	1,798.9	608.4	2,655.4	2,233.4	422.1	–248.2	–434.5	186.3
2007	2,568.2	1,933.2	635.1	2,730.2	2,276.6	453.6	–162.0	–343.5	181.5
2008 estimate	2,521.2	1,859.0	662.2	2,931.2	2,461.2	470.1	–410.0	–602.2	192.2
2009 estimate	2,699.9	2,004.4	695.6	3,107.4	2,615.5	491.9	–407.4	–611.1	203.7
2010 estimate	2,931.3	2,191.2	740.2	3,091.3	2,575.0	516.4	–160.0	–383.8	223.8
2011 estimate	3,076.4	2,295.1	781.4	3,171.2	2,630.5	540.8	–94.8	–335.4	240.6
2012 estimate	3,269.9	2,451.3	818.6	3,221.8	2,653.8	568.0	48.1	–202.5	250.6
2013 estimate	3,428.2	2,569.1	859.1	3,398.9	2,769.7	629.2	29.3	–200.6	229.9

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. Some of the Government's major non-budgetary activities are discussed below.

***Federal credit programs: budgetary and non-budgetary transactions*.**—Federal credit programs make direct loans or guarantee private loans. The Federal Credit Reform Act of 1990 changed how the costs of credit programs are recorded in the budget by defining as budgetary the subsidies provided by the credit programs and classifying the other credit cash flows as non-budgetary.

When the Government makes a loan, it creates a financial asset that will produce future cash inflows for the Government as the loan is repaid. When the

Government guarantees a loan made by a non-Federal lender, it creates a contingent liability that may require a cash outflow in a future year. Prior to the Credit Reform Act, the budget treated the full amount of a Federal loan as a cost and an outlay at the time the loan was made, and the future repayments of principal and interest as receipts. In addition, prior to the Credit Reform Act, the budget did not record loan guarantees as a cost or an outlay unless or until a loan actually defaulted, and the Government had to fulfill its guarantee commitment.

Since 1992, under the Credit Reform Act, the budgetary costs of direct loans and loan guarantees have been measured as the net present value of estimated cash outflows from the Government less the present value of estimated cash inflows to the Government. The cash flows are discounted at the Government's cost of borrowing. The costs are recorded in the budget at the time the Government makes a loan or guarantees a loan made by a non-Federal lender. For example, a group of loans that is expected to repay exactly what it costs the Government to finance would have zero net cost and, under the Credit Reform Act, no effect on Government outlays. Similarly, a group of loan guarantees with upfront fees that exactly offset the expected cost of defaults would have zero net cost and no effect on Government outlays. However, if the Government provides a subsidy, by charging below-market interest rates or fees that are less than the cost of the defaults, or by paying interest subsidies to non-Federal lenders, the Government incurs a budgetary cost, which is measured on a present value basis. This subsidy cost is similar to the net outlays of other Federal programs and, under the Credit Reform Act, is included in the budget as an outlay of a credit "program" account.

All of the cash transactions with the public that result from Government credit programs—the disbursement and repayment of loans, the payment of default claims on guarantees, and the collection of interest and fees—are recorded in credit "financing" accounts. These financing accounts receive payments from the credit program accounts for the costs of direct loans and loan guarantees. The net transactions of the financing accounts—i.e., the cash transactions with the public less the amounts received from the program accounts—are not costs or outlays to the Government. Under the Credit Reform Act, the financing accounts are non-budgetary and excluded from the budget.[2] Transactions of the financing accounts do, however, affect the Government's borrowing requirements, as explained in Chapter 16 of this volume, "Federal Borrowing and Debt."

Since the adoption of credit reform, the budget outlays of credit programs reflect only the subsidy costs of Government credit and show this cost when the credit assistance is provided, thereby reflecting the true cost of credit decisions. This enables the budget to fulfill its purpose of being a financial plan for allocating resources among alternative uses by comparing the cost of a program with its benefits, comparing the cost of credit programs with the cost of other spending programs, and comparing the cost of one type of credit assistance with the cost of another type.[3] Credit programs are discussed in Chapter 7 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 (TSP). 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 transactions of the Government itself and are non-budgetary. The administrative functions of the Thrift Investment Board are carried out by Government employees, and are, therefore, included in the budget on a reimbursable basis. 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.

The Social Security voluntary personal retirement accounts proposed by the Administration would be owned by individuals, not the Government. If the Social Security proposal is adopted, contributions into the personal accounts will be recorded as outlays, but the accounts themselves will be classified as non-budgetary. If these accounts were held by the Government, it would be only in a fiduciary capacity, and the accounts would be classified as deposit funds. Deposit funds are further discussed in a section of Chapter 26 of this volume, "The Budget System and Concepts."

Government-sponsored enterprises.—The Federal Government has chartered several Government-sponsored enterprises (GSEs), such as Fannie Mae, Freddie Mac, and the Farm Credit Banks, to provide financial intermediation for specified public purposes. The GSEs are excluded from the budget because, despite their origin, they are now all privately owned and controlled. However, because they were established by the Federal Government to serve public-policy purposes and because

[2] See §505(b) of the Federal Credit Reform Act of 1990.

[3] For more explanation of the budget concepts for direct loans and loan guarantees, see the sections on Federal credit and credit financing accounts in Chapter 26 of this volume, "The Budget System and Concepts." The structure of credit reform is further explained in Chapter VIII.A of the *Budget of the United States Government, Fiscal Year 1992,* Part Two, pp. 223–26. The implementation of credit reform through 1995 is reviewed in Chapter 8, "Underwriting Federal Credit and Insurance," *Analytical Perspectives, Budget of the United States Government, Fiscal Year 1997,* pp. 142–44. Refinements and simplifications enacted by the Balanced Budget Act of 1997 or provided by later OMB guidance are explained in Chapter 8, "Underwriting Federal Credit and Insurance," *Analytical Perspectives, Budget of the United States Government, Fiscal Year 1999,* p. 170.

they still serve such purposes to some extent, estimates of their activities are reported in a separate chapter of the *Budget Appendix* and their activities are analyzed in Chapter 7 of this volume, "Credit and Insurance."

Tax expenditures.—The Federal tax system includes numerous special tax exclusions, exemptions, deductions, and similar provisions. These provisions subsidize particular activities and can affect resource allocation and income distribution in ways that are similar to spending programs. Because of this similarity, these provisions are referred to as "tax expenditures." Unlike typical spending programs, however, tax expenditures reduce receipts rather than increase outlays.

Although the effects of tax expenditures are incorporated into the Budget's estimates of receipts, tax expenditures are considered non-budgetary. This is because tax expenditures are not shown explicitly as outlays or as negative tax receipts and because tax expenditures pose significant measurement problems. Tax expenditures are identified and measured by first specifying a hypothetical "baseline" tax system, which as noted below can be highly subjective and technically complex. Tax expenditures are discussed in Chapter 19 of this volume, "Tax Expenditures." Chapter 19 presents estimates for tax expenditures associated with individual and corporate income taxes, and discusses how tax expenditures compare with spending programs and regulation as alternative methods for achieving policy objectives.

The current tax expenditure baseline is loosely patterned on a comprehensive income tax, but departs from that standard in a number of areas. As explained in more detail in Chapter 19, the current baseline concepts used to identify and measure tax expenditures are somewhat arbitrary and yet essential. As noted in the chapter, the magnitude and distribution of tax expenditures would be significantly different if measured relative to a pure comprehensive income tax or a comprehensive consumption tax rather than the current baseline. The appendix to Chapter 19 provides a critique of the current tax expenditure presentation and attempts to answer three questions: (1) what would tax expenditures be if a comprehensive income tax were used as the baseline without any departures from such a standard; (2) what would tax expenditures be if a comprehensive consumption tax were used to define the baseline; and (3) what are the negative tax expenditures under the current system. Negative tax expenditures are provisions that cause people to pay more tax than they would under the baseline. Examples include interest, capital gains and depreciation provisions that are not adjusted for inflation.

Hypothetically, tax expenditures could be included as outlays in the budget. Doing so would require measuring receipts as the sum of actual receipts plus the total revenue lost to the tax expenditures and measuring outlays as the sum of actual outlays plus the tax expenditures. The budget would then show the Government's allocation of resources to education, housing and other activities as the sum of spending programs plus tax expenditures; this allocation would be different from the allocation for just spending programs alone. Because receipts and outlays would be increased by the same amount, the resulting deficit would be unchanged. The difficulties in identifying and measuring tax expenditures make it impractical to include tax expenditures in the budget in this manner.

Regulation.—Government regulation often requires the private sector to make expenditures for specified purposes, such as 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 the 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.[4]

Although not included in the budget, the estimated costs and benefits of Federal regulation have been published annually by the Office of Management and Budget (OMB) since 1997. The latest report was released in March 2007.[5] The report estimates the total costs and benefits of major Federal regulations reviewed by OMB from October 1996 through September 2006, and the impact of Federal regulation on State, local, and tribal governments. It also includes a report on Agency Compliance with the Unfunded Mandates Reform Act of 1995.

Monetary Policy.—As noted above, the budget is a financial plan for allocating resources by raising revenues and spending those revenues. This fiscal policy tool is used by elected Government officials to promote economic growth. Monetary policy is another tool that governments use to promote a strong and stable economy, primarily by maintaining price stability and a sound banking system. In the United States, monetary policy is conducted by the Federal Reserve System, which, by law, is a self-financing entity that is independent of the other branches of Government. The effects of monetary policy and the actions of the Federal Reserve System are non-budgetary; the budget of the Board of Governors of the Federal Reserve System is included in the *Budget Appendix* for informational purposes only.

[4] The most recent Regulatory Plan and introduction to the Unified Agenda were issued by the General Services Administration's Regulatory Information Service Center and were printed in the Federal Register of December 10, 2007 (vol. 72, no. 236). Both the Regulatory Plan and Unified Agenda are available on-line at www.reginfo.gov and at www.gpoaccess.gov.

[5] Office of Information and Regulatory Affairs, Office of Management and Budget, 2007 Draft Report to Congress on the Costs and Benefits of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities (2007). The Report is available at *www.whitehouse.gov/omb/inforeg/2007_cb/2007_draft_cb_report.pdf.*

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 them are discussed in this volume and in the main *Budget* volume.

24. FEDERAL EMPLOYMENT AND COMPENSATION

This section provides information on civilian and military employment in the Executive, Legislative, and Judicial branches. It also provides information on personnel compensation and benefits and on overseas staffing presence.

Measuring Federal Employment

For budgetary purposes, civilian employment is measured on the basis of full-time equivalents (FTEs). One FTE is equal to one work year (see OMB Circular A-11, Section 85). Put simply, one full-time employee counts as one FTE, and two half-time employees also count as one FTE.

Significant Changes in Employment

Table 24–1 shows Executive Branch civilian FTE (excluding the U.S. Postal Service) growing by five percent between 2005 and 2009. The primary reason for this growth continues to be mission increases for homeland security and the global war on terrorism. Chart 24–1 shows the trend in Executive Branch civilian FTE over the last several years. Table 24–2 shows FTE totals Government wide, to include military. For the 2009 Budget, additional significant changes by agency are discussed below.

Within the *Department of Commerce*, the Bureau of the Census is preparing for the 2010 Census. In 2009, the bureau will open 150 early local census offices, and hire temporary staff to conduct address canvassing, the first major nationwide field operation of the 2010 Census. The U.S. Patent and Trademark Office requests additional FTE in an effort to decrease processing times for patent applications, which are increasing.

Department of Energy proposes to increase the Department of Energy's federal staff to meet the increasing workload in specific areas. Overall, major increases are in (1) the National Nuclear Security Administration to support requirements in Defense Nuclear Nonproliferation and Emergency Operations programs as well as emerging skill mix needs in the Office of the Administrator; (2) the Office of Science to support investments in research and infrastructure associated with the President's American Competitiveness Initiative; (3) the Office of Loan Guarantees to provide staff for this new program; and, (4) the Nuclear Waste Fund FTE to support design and license defense activities and prepare DOE to obtain a Nuclear Regulatory Commission license to manage the construction and operation of the Yucca Mountain project in a safe and cost-effective manner.

Department of Health and Human Services requests additional FTE to support a number of program areas. Notable increases relate to the Food and Drug Administration's food protection activities, expanded staff at Indian Health Service health care facilities, recruitment of medical countermeasure development experts to support the public health and emergency preparedness mission, and additional officers in the Public Health Service Commissioned Corps to form new Health and Medical Response (HAMR) Teams.

Within the *Department of Homeland Security*, Immigration and Customs Enforcement and Customs and Border Protection have seen significant growth in its workforce as a part of the Administration's efforts to increase border security and to improve interior enforcement of our Nation's immigration laws. Also, there have been increases for aviation and transportation security and emergency management. The U.S. Coast Guard will grow by almost one percent in 2009, with specific workforce increases directed to programs supporting their Marine Safety and Port Security missions.

Department of Justice requests an FTE increase to enhance critical law enforcement and counterterrorism related programs, including in the Federal Prison System to accommodate the growing federal prisoner population and in the Federal Bureau of Investigation as it continues to transform to meet both law enforcement and counterterrorism responsibilities.

Department of Transportation's workforce growth largely comes from the Federal Aviation Administration (FAA.) FAA is planning on increasing its FTE's for the "Air Traffic Organization" and "Safety and Operations" accounts in 2009 in order to annualize hiring made during 2007 and increase personnel for the air traffic control and safety workforces.

Department of State requests additional FTE to meet new high-priority foreign policy requirements including strengthening American presence in critical emerging areas, strengthening civilian response capabilities, improving professional training capacity, increasing efforts against visa and passport fraud, and enhancing security for diplomatic personnel worldwide.

Within *International Assistance Programs*, the United States Agency for International Development (USAID) will initiate the Development Leadership Initiative in 2009 to strengthen the Agency's capacity by expanding its permanent Foreign Service Officer corps. In 2009, USAID will increase FTE as they begin the recruitment, hiring and training of approximately 300 new Foreign Service Officers.

Within the *Department of Veterans Affairs*, the Veterans Benefits Administration is increasing its disability claims adjudication staff to respond to the increasing volume and complexity of disability claims. The additional FTE will bring the Department closer to reaching its disability claims processing strategic target of 125 days to process. To accomplish the priority of providing high-quality health care, the Veterans Health Administration is increasing the number of providers and other personnel to (1) help meet the projected growth in the number of patients seeking medical care, including meeting the mental health needs of returning veterans; (2) oversee and manage Non Recurring Maintenance projects and reduce backlog; and (3) increase operational oversight. Additional FTE in the National Cemetery Administration will staff six new national cemeteries expected to open in 2009.

Equal Opportunity Employment Commission requests 175 additional FTE in 2009 for front-line investigative positions to reduce EEOC's private- sector charge inventory and for the new in-house National Contact Center.

Small Business Administration requests a reduction in staff due to the decrease in workload associated with Hurricanes Katrina, Rita, and Wilma. The Small Business Administration also continues to reduce the number of temporary FTEs that assisted in providing Disaster Loans to Gulf Coast homeowners, renters, and businesses.

Personnel Compensation and Benefits

Table 24–3 displays personnel compensation and benefits (in millions of dollars) for Federal civilian and military personnel of all branches of Government.

Direct compensation of the Federal civilian work force includes base pay and premium pay, such as overtime. In addition, it includes other cash components, such as geographic and other pay differentials (e.g., locality pay, and special pay adjustments for law enforcement officers), recruitment and relocation bonuses, retention allowances, performance awards, and cost-of-living and overseas allowances. Military personnel compensation also includes special and incentive pays (e.g., enlistment and reenlistment bonuses), and allowances for clothing, housing, and subsistence.

Personnel benefits for current employees consists of the cost to Government agencies for health insurance, life insurance, Social Security (old age, survivors, disability, and health insurance) contributions to the retirement funds to finance future retirement benefits, and other items. Compensation for former personnel includes outlays for retirement pay benefits and the Government's share of the cost of health and life insurance.

The U.S. Overseas Staffing Presence

There are approximately 66,000 permanent American and locally hired staff overseas under the authority of Chiefs of Mission (e.g., Ambassadors or Charge d' Affairs at U.S. embassies worldwide). The average cost to support an American position overseas in 2009 is projected to be about $549,000, as reported by agencies with personnel overseas. This total includes direct costs, such as salary, benefits, and overseas allowances, and also support costs, such as housing, educational costs for dependents, travel, administrative support, and Capital Security Cost Sharing charges.

The Administration continues to work to improve the safety, efficiency, and accountability in U.S. Government staffing overseas through the Presidential Management Agenda (PMA) initiative on a Right-sized Overseas Presence. A component of this initiative is developing transparent data on overseas staffing, including the cost of maintaining positions overseas, and incorporating these data in the budget process to better inform decisions makers on overseas staffing levels.

Overseas Staffing Under Chief of Mission Authority*

Total Personnel Under COM Authority (Including American and Locally Engaged Staff) Projected for 2008	Total American Personnel Under COM Authority Projected for 2008	Average Cost of an American Position Overseas Estimated for 2009	New Overseas American Positions Requested in the President's 2009 Budget
65,900	15,335	$549,000	493

* As reported by agencies in their 2009 budget submissions.

Table 24–1. FEDERAL CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH

(Civilian employment as measured by Full-Time Equivalents, in thousands)

Agency	Actual			Estimate		Change: 2005 to 2009	
	2005	2006	2007	2008	2009	FTE's	Percent
Cabinet agencies:							
Agriculture	99.6	97.0	94.8	95.4	91.1	–8.5	–8.6%
Commerce	35.1	36.0	36.3	40.1	53.9	18.8	53.7%
Defense-military functions	653.0	661.8	658.8	671.3	677.2	24.2	3.7%
Education	4.3	4.2	4.1	4.2	4.2	–0.1	–3.0%
Energy	14.9	14.7	14.6	15.8	16.1	1.2	8.0%
Health and Human Services	59.3	59.1	58.8	60.0	60.8	1.5	2.6%
Homeland Security	143.3	144.4	148.1	162.3	166.2	22.9	15.9%
Housing and Urban Development	9.9	9.6	9.5	9.7	9.5	–0.4	–4.2%
Interior	70.4	68.7	67.4	68.3	68.6	–1.8	–2.6%
Justice	103.0	104.2	105.0	113.9	115.8	12.8	12.4%
Labor	16.0	15.8	15.9	16.1	16.8	0.8	4.9%
State	30.1	30.0	30.1	31.1	32.2	2.1	6.9%
Transportation	55.5	53.3	53.4	55.2	55.5	0.0	–0.1%
Treasury	110.0	107.7	107.7	107.6	109.6	–0.4	–0.4%
Veterans Affairs	222.0	222.6	230.4	249.4	253.4	31.4	14.1%
Other agencies—excluding Postal Service:							
Agency for International Development	2.4	2.4	2.4	2.4	2.6	0.2	9.0%
Broadcasting Board of Governors	2.2	2.1	2.0	2.2	2.1	–0.1	–4.2%
Corps of Engineers—Civil Works	22.5	22.1	21.2	21.0	17.0	–5.5	–24.4%
Environmental Protection Agency	17.5	17.3	17.0	17.2	17.1	–0.4	–2.3%
Equal Employment Opportunity Comm	2.4	2.2	2.2	2.4	2.6	0.2	9.2%
Federal Deposit Insurance Corporation	4.9	4.5	4.5	4.6	4.6	–0.3	–6.1%
General Services Administration	12.5	12.3	11.9	12.0	12.0	–0.5	–4.0%
National Aeronautics and Space Admin	18.8	18.3	18.2	18.1	18.1	–0.7	–3.8%
National Archives and Records Administration	2.8	2.8	2.8	2.9	2.9	0.1	1.9%
National Labor Relations Board	1.8	1.8	1.7	1.7	1.7	–0.1	–6.9%
National Science Foundation	1.3	1.3	1.3	1.4	1.4	0.1	9.5%
Nuclear Regulatory Commission	3.1	3.2	3.5	3.8	3.8	0.7	20.9%
Office of Personnel Management	3.6	4.3	4.6	5.0	4.9	1.3	37.4%
Peace Corps	1.0	1.1	1.1	1.1	1.3	0.3	24.8%
Railroad Retirement Board	1.0	1.0	1.0	1.0	1.0	0.0	–0.7%
Securities and Exchange Commission	3.9	3.7	3.5	3.6	3.5	–0.4	–9.1%
Small Business Administration	4.1	5.9	4.4	3.3	3.2	–0.9	–22.6%
Smithsonian Institution	5.1	5.0	5.0	5.3	5.3	0.2	4.7%
Social Security Administration	64.6	63.7	61.7	60.7	59.8	–4.8	–7.4%
Tennessee Valley Authority	12.6	13.1	11.3	11.9	11.5	–1.1	–9.0%
All other small agencies	14.8	15.4	15.6	16.5	16.9	2.1	13.9%
Total, Executive Branch civilian employment *	**1,829.6**	**1,832.8**	**1,831.6**	**1,898.3**	**1,924.2**	**94.6**	**5.2%**
Subtotal, Defense	653.0	661.8	658.8	671.3	677.2	24.2	3.7%
Subtotal, Non-Defense	1,176.6	1,171.0	1,172.8	1,227.0	1,247.0	70.4	6.0%

* Totals may not add due to rounding.

Chart 24-1. 2009 Budget Executive Branch Civilian FTE
(Excluding Postal Service)

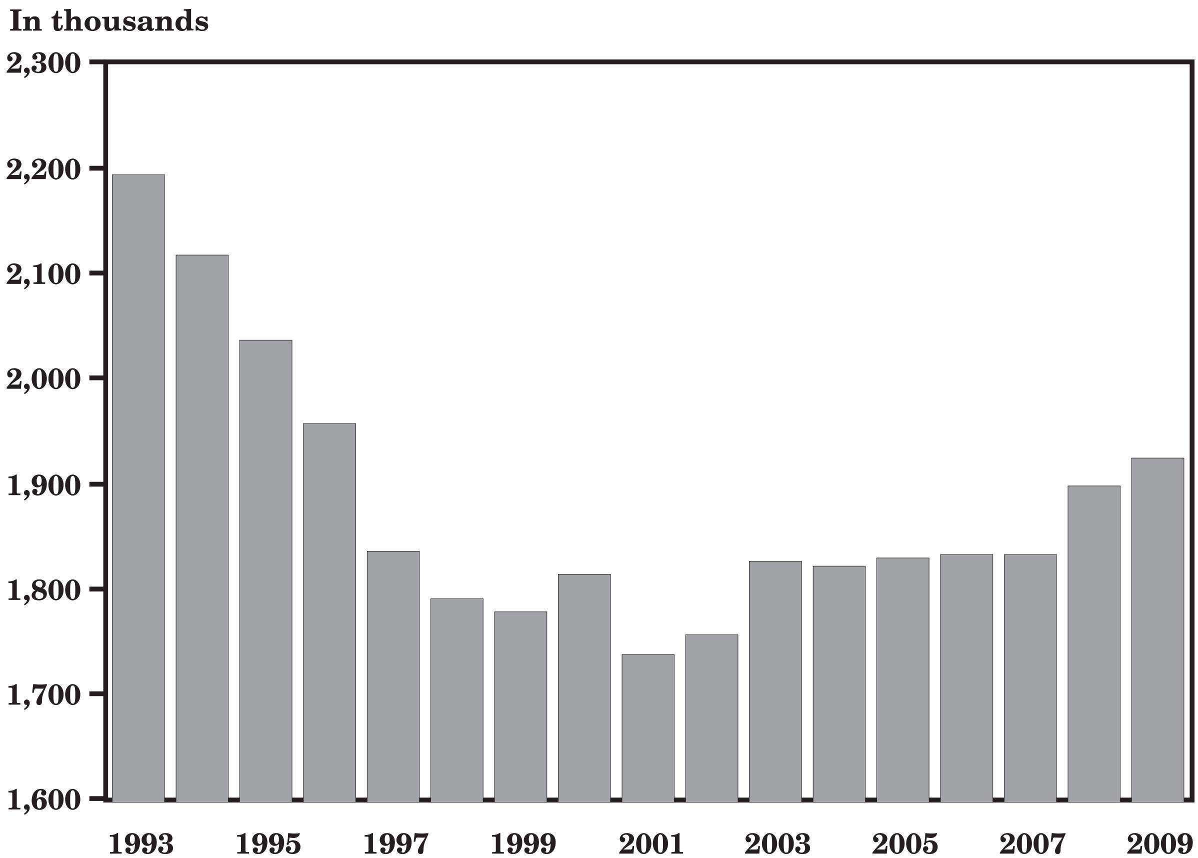


Table 24–2. TOTAL FEDERAL EMPLOYMENT

(As measured by Full-Time Equivalents)

Description	2007 Actual	Estimate		Change: 2007 to 2009	
		2008	2009	FTE's	Percent
Executive branch civilian personnel:					
All agencies except Postal Service and Defense	1,172,774	1,227,007	1,247,007	74,233	6.3%
Defense-Military functions (civilians)	658,800	671,293	677,231	18,431	2.8%
Subtotal, excluding Postal Service	1,831,574	1,898,300	1,924,238	92,664	5.1%
Postal Service [1]	801,641	776,770	762,305	–39,336	–4.9%
Subtotal, Executive Branch civilian personnel	2,633,215	2,675,070	2,686,543	53,328	2.0%
Executive branch uniformed personnel: [2]					
Department of Defense	1,382,260	1,375,100	1,369,475	–12,785	–0.9%
Department of Homeland Security (USCG)	41,478	42,455	42,604	1,126	2.7%
Commissioned Corps (HHS, EPA, NOAA)	6,250	6,284	6,389	139	2.2%
Subtotal, uniformed military personnel	1,429,988	1,423,839	1,418,468	–11,520	–0.8%
Subtotal, Executive Branch	4,063,203	4,098,909	4,105,011	41,808	1.0%
Legislative Branch: Total FTE [3]	31,185	32,480	33,215	2,030	6.5%
Judicial branch: Total FTE	33,558	33,909	34,188	630	1.9%
Grand total	**4,127,946**	**4,165,298**	**4,172,414**	**44,468**	**1.1%**

[1] Includes Postal Rate Commission.
[2] Military personnel on active duty. Excludes reserve components.
[3] FTE data not available for the Senate (positions filled were used).

TABLE 24–3. PERSONNEL COMPENSATION AND BENEFITS

(In millions of dollars)

Description	2007 Actual	2008 Estimate	2009 Request	Change: 2007 to 2009	
				Dollars	Percent
Civilian personnel costs:					
Executive Branch (excluding Postal Service):					
Direct compensation:					
DOD—military functions	43,546	46,040	47,544	3,998	9.2%
All other executive branch	90,649	97,604	101,346	10,697	11.8%
Subtotal, direct compensation	134,195	143,644	148,890	14,695	11.0%
Personnel benefits:					
DOD—military functions	11,527	12,367	12,729	1,202	10.4%
All other executive branch	37,051	38,297	39,591	2,540	6.9%
Subtotal, personnel benefits	48,578	50,664	52,320	3,742	7.7%
Subtotal, Executive Branch	182,773	194,308	201,210	18,437	10.1%
Postal Service:					
Direct compensation	41,843	41,356	42,395	552	1.3%
Personnel benefits	20,797	18,609	18,862	–1,935	–9.3%
Subtotal	62,640	59,965	61,257	–1,383	–2.2%
Legislative Branch: [1]					
Direct compensation	1,885	1,988	2,151	266	14.1%
Personnel benefits	524	548	626	102	19.5%
Subtotal	2,409	2,536	2,777	368	15.3%
Judicial Branch:					
Direct compensation	2,672	2,839	3,055	383	14.3%
Personnel benefits	811	879	943	132	16.3%
Subtotal	3,483	3,718	3,998	515	14.8%
Total, civilian personnel costs	251,305	260,527	269,242	17,937	7.1%
Military personnel costs:					
DOD—military functions:					
Direct compensation	74,171	82,510	73,200	–971	–1.3%
Personnel benefits	50,581	48,608	49,143	–1,438	–2.8%
Subtotal	124,752	131,118	122,343	–2,409	–1.9%
All other executive branch, uniformed personnel:					
Direct compensation	2,662	2,717	2,820	158	5.9%
Personnel benefits	1,059	1,040	1,062	3	0.3%
Subtotal	3,721	3,757	3,882	161	4.3%
Total, military personnel costs [2]	128,473	134,875	126,225	–2,248	–1.7%
Grand total, personnel costs	**379,778**	**395,402**	**395,467**	**15,689**	**4.1%**
ADDENDUM					
Former Civilian Personnel:					
Retired pay for former personnel	79,531	65,522	69,246	–10,285	–12.9%
Government payment for Annuitants:					
Employee health benefits	8,581	8,827	9,638	1,057	12.3%
Employee life insurance	43	45	46	3	7.0%
Former Military Personnel:					
Retired pay for former personnel	43,630	45,480	47,824	4,194	9.6%
Military annuitants health benefits	7,576	8,349	9,021	1,445	19.1%

[1] Excludes members and officers of the Senate.
[2] Excludes reserve components not on active duty.

CURRENT SERVICES ESTIMATES

25. CURRENT SERVICES ESTIMATES

Current services or "baseline" estimates are designed to provide a neutral benchmark against which policy proposals can be measured. Since the early 1970s when the first requirements for the calculation of a "current services" baseline were enacted, a variety of concepts and measures have been employed. Shortly after enactment of the Budget Enforcement Act (BEA) which provided detailed rules for calculating a baseline, there was a consensus to define the current services estimates according to those rules. However, that baseline has serious technical flaws, which compromise its ability to serve as a neutral measure. This section provides detailed estimates of a baseline that corrects these flaws. It also discusses alternative formulations for the baseline.

Ideally, a current services baseline would provide a projection of estimated receipts, outlays, deficits or surpluses, and budget authority needed to reflect this year's enacted policies and programs for each year in the future. Because such a concept would be nearly impossible to apply across all segments of the government, the baseline has instead become largely a mechanical construct.

Moreover, it is important to discuss what a baseline is not. The baseline is not a prediction of the final outcome of the annual budget process, nor is it a proposed budget. By itself, the current services baseline commits no one to any particular policy. Instead, the commitments or constraints reflected in the current services estimates are based on the tax and spending policies contained in current law.

The current services baseline is used in a variety of ways: It can warn of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs. It is also a "policy-neutral" benchmark against which the President's Budget and

Table 25–1. BASELINE CATEGORY TOTALS

(In billions of dollars)

	2007	2008	2009	2010	2011	2012	2013
Receipts	2,568	2,662	2,815	2,954	3,110	3,301	3,454
Outlays:							
Discretionary:							
DOD-Military	528	555	538	506	512	523	536
Homeland security	32	36	39	39	40	41	42
International affairs	35	37	36	35	37	38	38
Other discretionary	448	481	479	477	480	488	498
Subtotal, Discretionary	1,042	1,109	1,092	1,057	1,070	1,090	1,114
Mandatory:							
Social Security	581	610	645	682	722	765	814
Medicare	371	391	420	449	495	495	553
Medicaid and SCHIP	197	211	224	239	256	275	297
Other mandatory	302	338	364	376	391	383	401
Subtotal, mandatory	1,451	1,551	1,653	1,746	1,864	1,918	2,065
Net interest	237	241	249	262	274	280	284
Total, outlays	2,730	2,900	2,993	3,065	3,207	3,289	3,464
Unified deficit(–)/surplus(+)	–162	–239	–178	–111	–97	12	–10
On-budget	–343	–431	–382	–334	–336	–236	–267
Off-budget	181	192	204	223	239	248	257
Memorandum:							
BEA baseline deficit	–162	–238	–231	–200	–50	136	136
Do not extend emergencies	....	....	52	96	104	108	111
Correct growth rates for pay	....	....	2	2	3	3	3
Remove special rule for administrative expenses of selected programs	....	....	*	*	*	1	1
Extend certain tax provisions	....	–*	–2	–13	–158	–237	–255
Related debt service	....	–*	1	4	5	1	–4
Current baseline deficit	–162	–239	–178	–111	–97	12	–10

* $500 million or less.

other budget proposals can be compared to measure the magnitude of the proposed changes. Table 25–1 shows current services estimates of receipts, outlays, and surpluses for 2007 through 2013. They are based on the economic assumptions described later in this chapter. The estimates are shown on a unified budget basis, i.e., the off-budget receipts and outlays of the Social Security trust funds and the Postal Service Fund are added to the on-budget receipts and outlays to calculate the unified budget totals. The table also shows the current services estimates by major component. The BEA baseline deficits are shown as a memorandum in the table. Table 25–2 shows the changes proposed in the President's Budget relative to the current services estimates. Descriptions of the Budget proposals can be found in the main *Budget* volume.

Table 25–2. IMPACT OF BUDGET POLICY

(In billions of dollars)

	2008	2009	2010	2011	2012	2013	Total 2009–2013
Current Services Baseline Deficit	–239	–178	–111	–97	12	–10	–383
Proposals:							
Economic growth package	–127	–26	4	2	–*	–2	–23
Other revenue proposals [1]	–16	–98	–41	–52	–49	–43	–283
Global war on terror and other: emergencies	–28	–101	–50	–17	–12	–11	–190
Discretionary policy:							
Security	*	–21	–25	–26	–23	–20	–114
Non-security	*	–2	24	45	60	76	203
Subtotal, discretionary	*	–22	–2	19	38	56	88
Mandatory proposals:							
Social security personal accounts	....	....	....	....	....	–31	–31
Other proposals	*	17	39	51	59	70	237
2009 Budget Deficit	–410	–407	–160	–95	48	29	–585

* $500 million or less.
Note: Each line includes debt service.
[1] Includes outlay impact of revenue proposals.

Conceptual Basis for Estimates

Receipts and outlays are divided into two categories that are important for calculating the current services estimates: those controlled by authorizing legislation (direct spending and receipts) and those controlled through the annual appropriations process (discretionary spending). Different estimating rules apply to each category. There are numerous alternative rules that could be used to develop current services estimates for both categories. The next section discusses some alternatives that might be considered.

Direct spending and receipts.—Direct spending includes the major entitlement programs, such as Social Security, Medicare, Medicaid, Federal employee retirement, unemployment compensation, Food Stamps and other means-tested entitlements. It also includes such programs as deposit insurance and farm price and income supports, where the Government is legally obligated to make payments under certain conditions. Receipts and direct spending are alike in that they involve ongoing activities that generally operate under permanent authority (they do not require annual authorization), and the underlying statutes generally specify the tax rates or benefit levels that must be collected or paid, and who must pay or who is eligible to receive benefits. The current services baseline assumes that receipts and direct spending programs continue in the future as specified by current law. The budgetary impact of anticipated regulations and administrative actions that are permissible under current law are also reflected in the estimates.

If a baseline is intended to reflect current law, then the provisions of law providing spending authority and the authority to collect taxes or other receipts that expire under current law should be assumed to expire. However, the current services baseline assumes extension of several types of authority:

- Expiring provisions affecting excise taxes dedicated to a trust fund are assumed to be extended at current rates. During the projection period of 2008 through 2013, the only taxes affected by this exception are taxes deposited in the Airport and Airway trust fund, which expire on February 29, 2008, and taxes deposited in the Highway trust fund, the Leaking Underground Storage Tank trust fund, and the Sport Fish Restoration and Boating Safety trust fund, which expire on September 30, 2011.
- Direct spending programs that will expire under current law are assumed to be extended if their 2008 outlays exceed $50 million. For example, Temporary Assistance for Needy Families and child care entitlement to States are scheduled to expire at the end of 2010. The baseline estimates provided here assume continuation of these pro-

grams through the projection period. However, programs enacted after the enactment of the Balanced Budget Act of 1997 that are explicitly temporary in nature expire in the baseline even if their current year outlays exceed the $50 million threshold. For example, the Secure Rural Schools and Community Self-Determination Act payments to counties impacted by the reduction of shared receipts associated with lower levels of timer harvesting on Federal lands are assumed to expire as scheduled in 2007 even though over $400 million of the 2007 payment are estimated to be made in the current year.

- Certain provisions in the 2001 and 2003 Tax Acts that were clearly not intended to be temporary are assumed to continue past their expiration date. These provisions include reductions in individual income taxes on capital gains and dividends, increased expensing for small businesses, repeal of estate and generation-skipping transfer taxes, modification of gift taxes, and reductions in income taxes scheduled to sunset on December 31, 2010. Unlike the two extensions discussed above, the BEA baseline definitions, developed before the enactment of the 2001 and 2003 tax acts, do not provide for extension of these provisions.

Discretionary spending.—Discretionary programs differ in one important aspect from direct spending programs—Congress provides spending authority for almost all discretionary programs one year at a time. The spending authority is normally provided in the form of annual appropriations. Absent appropriations of additional funds in the future, discretionary programs would cease to exist after existing balances were spent. If the baseline was intended to reflect current law, then a baseline would only reflect the expenditure of remaining balances from appropriations laws. Instead the current services baseline provides a mechanical definition for discretionary programs that is somewhat arbitrary. The definition used here attempts to keep discretionary spending level in real terms. For 2008, the current services estimates for discretionary programs are equal to enacted 2008 appropriations. For 2009 through 2013, funding for most accounts is equal to this 2008 level adjusted for inflation. The inflation rates used here are similar to those required by the BEA but adjusted to remove the overcompensation for federal pay inherent in the BEA definition. Unlike the BEA requirements, these current services estimates assume that federal pay raises are effective in January, as required under current law. At the time the BEA was enacted, it ignored the nearly contemporaneous enactment of the Federal Employees Compensation Act of 1991 that shifted the effective date of federal employee pay raises from October to January. Also, the estimates presented here exclude the special adjustment for administrative expenses for certain benefit programs required by the BEA. This provision is inconsistent with the baseline rules for other accounts that fund administrative costs. In addition, the baseline estimates presented here assume that emergency appropriations enacted for 2008, which primarily provide funding for the Global War on Terror, are one-time only expenditures. The BEA requires that the baseline assume funding for emergencies repeatedly through the projection period.

Alternative Formulations of Baseline

Throughout much of U.S. history, budget proposals were often compared to either the President's request or the previous year's budget. In the early 1970s, policymakers developed the concept of a baseline to provide a more neutral benchmark for comparisons. While the Congressional Budget Act of 1974 included a requirement that OMB and the Congressional Budget Office (CBO) provide estimates of a current services baseline, the definition of the baseline was very general and specific guidance was not provided.

Subsequent budget laws have specified in increasing detail the requirements for constructing baselines. Current services estimates for direct spending programs and receipts are generally estimated based on laws currently in place and most major programs are assumed to continue even past sunset dates set in law. In the case of receipts, the BEA requires only the extension of trust fund excise taxes, but otherwise bases the estimates on current law. For discretionary programs, these acts instituted a precise definition of baseline with numerous rules for its construction.

It is clear, however, that a number of baseline definitions could be developed that differ for those presented in this chapter:

- *Extend provisions affecting parts of mandatory programs.* Currently, mandatory programs that have current year outlays of over $50 million are generally assumed to continue. However, provisions of law that affect parts of mandatory programs, even those that have been consistently extended in the past, are assumed to expire as scheduled.
- *Do not extend any authorizing laws that expire.* If all mandatory programs were assumed to expire as scheduled, deficits for 2009 through 2013 would be $448 billion lower than the current estimates. (See the section below on major program assumptions for details on mandatory program extensions assumed in the estimates.) If excise taxes were allowed to expire, the deficit would be $149 billion higher over the period 2009 through 2013. If certain provisions of the 2001 and 2003 Tax Acts were assumed to expire, the deficit would be $708 billion lower over the period.
- *Straightline appropriations.* If all discretionary budgetary resources were to be the same in each year in the projection period as provided for the current year, total outlays would be $17 billion lower in 2009 and $342 billion lower over the period 2009 through 2013.
- *Do not extend any appropriations.* The current treatment of expiring provisions is inconsistent

with the treatment of discretionary spending. All discretionary spending continues whether there is authorization for the program or not and whether funds have already been provided or not. In nearly all cases, funds for discretionary programs have not been provided in advance for years beyond the current year. If rules consistent with the treatment of other expiring provisions were applied to discretionary spending, no new budgetary resources would be provided. Thus, under a strict "current law" approach, the only discretionary outlays that would be included in the baseline would be the lagged spending from the current year budgetary resource. If this rule were followed, outlays in 2009 would be reduced by $602 billion relative to the current estimates. Clearly this would provide an unrealistic estimate of future spending and the government's future fiscal position.

Table 25–3 provides estimates for a variety of changes in baseline definitions that could be considered.

Table 25–3. ALTERNATIVE BASELINE ASSUMPTIONS

(In billions of dollars)

	2008	2009	2010	2011	2012	2013	Total 2009–2013
Current baseline surplus/deficit	–239	–178	–111	–97	12	–10	–383
Alternative assumptions ("-" represents deficit increase):							
Extend provisions affecting parts of mandatory programs [1]	–1	–2	–2	–3	–3	–3	–14
Do not extend any authorizing laws:							
Mandatory spending	22	66	73	93	104	112	448
Trust fund excise taxes	–7	–12	–14	–15	–52	–56	–149
Certain provisions of the 2001 and 2003 Tax Acts	*	2	13	163	250	280	708
Straightline appropriations	....	17	39	66	95	126	342
Do not extend any appropriations	....	602	891	1,035	1,140	1,229	4,897

* $500 million or less.

[1] Estimates provided here are the totals for the illustrative provisions shown in Table 25–5. This is not a complete listing of all provisions that expire.

Table 25–4. SUMMARY OF ECONOMIC ASSUMPTIONS

(Fiscal years; dollar amounts in billions)

	2008	2009	2010	2011	2012	2013
Gross Domestic Product (GDP):						
Levels, dollar amounts in billions:						
Current dollars	14,312	15,027	15,792	16,580	17,395	18,243
Real, chained (2000) dollars	11,808	12,154	12,523	12,890	13,258	13,632
Percent change, year over year:						
Current dollars	4.7	5.0	5.1	5.0	4.9	4.9
Real, chained (2000) dollars	2.7	2.9	3.0	2.9	2.9	2.8
Inflation measures (percent change, year over year):						
GDP chained price index	1.9	2.0	2.0	2.0	2.0	2.0
Consumer price index (all urban)	3.1	2.1	2.3	2.3	2.3	2.3
Unemployment rate, civilian (percent)	4.9	4.9	4.8	4.8	4.8	4.8
Interest rates (percent):						
91–day Treasury bills	3.8	4.0	4.1	4.3	4.3	4.3
10–year Treasury notes	4.5	4.8	5.0	5.2	5.3	5.3
MEMORANDUM:						
Related program assumptions:						
Automatic benefit increases (percent):						
Social security and veterans pensions	2.3	2.5	2.1	2.3	2.3	2.3
Federal employee retirement	2.3	2.5	2.1	2.3	2.3	2.3
Food stamps	4.6	3.4	2.1	2.3	2.3	2.3
Insured unemployment rate	2.0	2.0	2.0	2.0	2.0	2.0

Economic Assumptions

The current services estimates are based on the same economic assumptions as the President's Budget, which are based on enactment of the President's Budget proposals. The economy and the budget interact. Changes in economic conditions significantly alter the estimates of tax receipts, unemployment benefits, entitlement payments that are automatically adjusted for changes in cost-of-living (COLAs), income support programs for low-income individuals, and interest on the Federal debt. In turn, Government tax and spending policies influence prices, economic growth, consumption, savings, and investment. Because of these interactions, it would be reasonable, from an economic perspective, to assume different economic paths for the current services baseline and the President's Budget. However, this would diminish the value of current services estimates as a benchmark for measuring proposed policy changes, because it would then be difficult to separate the effects of proposed policy changes from the effects of different economic assumptions. By using the same economic assumptions for current services and the President's Budget, this potential source of confusion is eliminated. The economic assumptions underlying both the budget and the current service estimates are summarized in Table 25–4. The economic outlook underlying these assumptions is discussed in greater detail in Chapter 12 of this volume.

Table 25–5. BENEFICIARY PROJECTIONS FOR MAJOR BENEFIT PROGRAMS

(Annual average, in thousands)

	Actual 2007	Estimate 2008	2009	2010	2011	2012	2013
Farmer direct payments	1,486	1,479	1,471	1,464	1,457	1,449	1,442
Federal family education loans	6,085	6,442	6,689	6,943	7,209	7,485	7,775
Federal direct student loans	1,656	1,707	1,769	1,834	1,901	1,972	2,045
Medicaid/State Childrens' Health Insurance Program	53,900	55,200	54,800	55,000	55,200	55,400	55,800
Medicare-eligible military retiree health benefits	1,922	1,956	1,987	2,011	2,040	2,086	2,136
Medicare:							
Hospital insurance	43,585	44,329	45,187	46,110	47,154	48,490	50,003
Supplementary medical insurance	40,764	41,255	41,993	42,748	43,539	44,647	45,977
Prescription Drug Plans and Medicare Advantage Prescription Drug Plans	23,858	25,170	26,554	27,954	29,430	31,110	32,382
Retiree Drug Subsidy	6,688	6,658	6,649	6,647	6,659	6,708	6,777
Managed Care Enrollment [1]	8,093	9,227	10,096	10,978	11,787	12,506	13,062
Railroad retirement	571	565	558	552	548	543	540
Federal civil service retirement	2,463	2,494	2,512	2,534	2,556	2,578	2,599
Military retirement	2,073	2,094	2,106	2,112	2,113	2,112	2,108
Unemployment insurance	7,632	8,049	8,298	8,344	8,421	8,432	8,461
Food stamps	26,466	27,796	27,983	27,524	26,824	26,526	26,252
Child nutrition	30,558	31,557	32,062	32,511	32,901	33,230	33,529
Foster care and adoption assistance	602	620	634	649	665	682	701
Supplemental security income (SSI):							
Aged	1,111	1,107	1,106	1,106	1,111	1,121	1,136
Blind/disabled	5,892	6,048	6,208	6,359	6,513	6,664	6,796
Subtotal, SSI	7,003	7,155	7,314	7,465	7,624	7,785	7,932
Child care and development fund [2]	2,700	2,600	2,500	2,500	2,500	2,500	2,500
Social security (OASDI):							
Old age and survivor insurance	40,681	41,172	41,994	43,021	44,068	45,190	46,495
Disability insurance	8,676	9,002	9,312	9,552	9,797	10,024	10,196
Subtotal, OASDI	49,357	50,174	51,306	52,573	53,865	55,214	56,691
Veterans compensation:							
Veterans	2,789	2,900	3,015	3,123	3,219	3,309	3,395
Survivors (non-veterans)	333	337	342	347	353	359	366
Subtotal, Veterans compensation	3,122	3,237	3,356	3,470	3,572	3,669	3,761
Veterans pensions:							
Veterans	325	322	319	316	312	309	306
Survivors (non-veterans)	198	200	199	198	196	195	194
Subtotal, Veterans pensions	523	522	518	513	509	504	500

[1] Enrollment figures include only beneficiaries who receive both Part A and Part B services through managed care.

[2] Includes children served through the CCDF (including TANF transfers) and through funds spent directly on child care in the Social Services Block Grant and TANF programs.

Major Programmatic Assumptions

A number of programmatic assumptions must be made in order to calculate the baseline estimates. These include assumptions about the number of beneficiaries who will receive payments from the major benefit programs and annual cost-of-living adjustments in the indexed programs. Assumptions on baseline caseload projections for the major benefit programs are shown in Table 25–5. Assumptions about various automatic cost-of-living-adjustments are shown in Table 25–4.

It is also necessary to make assumptions about the continuation of expiring programs and provisions. In the estimates provided here, expiring excise taxes dedicated to a trust fund are extended at current rates. Certain income tax provisions from the 2001 and 2003 Tax Acts, that were not designed to be temporary in nature, are assumed to be permanent for purposes of calculating revenue estimates. In general, mandatory programs with current year spending of at least $50 million are also assumed to continue. All discretionary programs with enacted non-emergency appropriations in the current year are assumed to continue. However, specific provisions of law that affect mandatory programs (but are not necessary for program operation) are allowed to expire as scheduled. For example, under the Medicare, Medicaid, and SCHIP Extension Act of 2007, Medicaid Transitional Medical Assistance will expire at the end of June 2008. The baseline does not assume additional spending under this authority beyond that point. Table 25–6 provides a listing of mandatory programs and taxes assumed to continue in the baseline after their expiration.

Many other important assumptions must be made in order to calculate the baseline estimates. These include assumptions about the timing and substance of regulations that will be issued over the projection period, the use of administrative discretion provided under current law, and other assumptions about the way programs operate. Table 25–6 lists many of these assumptions and their impact on the baseline estimates. It is not intended to be an exhaustive listing; the variety and complexity of Government programs are too great to provide a complete list. Instead, some of the more important assumptions are shown.

Table 25–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE

(In millions of dollars)

	Estimate					
	2008	2009	2010	2011	2012	2013
REGULATIONS						
Finalized						
Foster care and adoption assistance	39	64	65	95	96	97
Old age and survivors insurance (OASI) and disability insurance (DI):						
Reduction of Title II benefits under family maximum in cases of dual entitlement	19	20	21	23	23	23
Trial work period	2	1	1	....	....	....
Continuing disability review failure to cooperate process	–12	–12	–12	–13	–14	–15
Expedited reinstatement of disability benefits	NA	NA	NA	NA	NA	NA
Amendments to the quick disability determination process	39	....	1	–4	–5	–8
Exemption of work activity as a basis for a continuing disability review	24	39	54	70	87	105
Medicaid: [1]						
Payment reform	–40	–790	–1,170	–1,210	–1,250	–1,290
School-based services reform	–64	–635	–675	–720	–770	–820
Supplemental security income (SSI):						
Title XVI cross-program recover	–15	–15	–20	–20	–20	–20
Student earned income exclusion	4	5	5	5	5	5
Expedited reinstatement of disability benefits	NA	NA	NA	NA	NA	NA
Amendments to the quick disability determination process	8	....	....	–1	–1	–1
Exemption of work activity as a basis for a continuing disability review	1	1	2	2	2	3
Not Finalized						
Child support enforcement	....	8	4	2	3	3
Foster care and adoption assistance:						
Adoption and foster care analysis and reporting system (AFCARS)	....	6	12	14	9	9
National Youth in Transition Database	6	6	7	6	6	6
Medicaid: [1]						
Graduate medical education reform	....	–150	–290	–450	–460	–470
Rehabilitation reform	–110	–360	–520	–570	–610	–660
Managed care reform	....	–100	–100	–200	–200	–200
Free care reform	....	....	....	....	....	....
Medicare: [1]						
Withhold payment for hospital acquired conditions	....	....	....	....	....	....
Program integrity actions	....	–150	–110	–90	–90	–90
Adjustments to skilled nursing facility payments	....	–720	–900	–960	–1,030	–1,090
Adjustments to hospice wage payments	....	–110	–360	–550	–610	–660
Adjustments to inpatient hospital payments	....	–80	–90	–110	–110	–120

Table 25–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(In millions of dollars)

	Estimate 2008	2009	2010	2011	2012	2013
EXPIRING AUTHORIZATIONS						
Provisions Extended in the Baseline (effect of extension)						
Spending:						
Abstinence education (Children and Family Services)	5	25	43	48	49	50
Aviation Excise Taxes	....	12,570	13,328	14,073	14,861	15,690
Child care entitlement to States	....	....	....	2,383	2,908	2,917
Child nutrition:						
Summer food service program	....	....	341	358	378	398
State administrative expenses	....	....	191	201	208	216
CCC market access, bioenergy and commodity programs:						
Counter-cyclical payment program	....	50	99	86	164	234
Dairy price support program	....	90	80	71	63	52
Dairy export incentive program	3	....	....	....	....	....
Direct payment program	1,101	5,182	5,182	5,182	5,182	5,182
Farm-to-consumer direct marketing act	1	1	1	1	1	1
Marketing assistance loan and LDP program	5	27	22	72	171	204
Milk income loss contract program	....	135	115	100	85	65
Sugar nonrecourse loan program	....	96	119	98	156	147
Market access program	109	200	200	200	200	200
Export credit guarantee programs (GSM 102)	37	31	20	18	18	18
Food for progress	277	340	340	340	340	340
Facilities financing guarantee	....	3	3	3	3	3
Cotton Statistics and Estimates Act of 1927	42	42	42	42	42	42
Conservation Reserve Program	....	10	91	276	532	851
Farm security and rural investment:						
Ground and surface water conservation	70	67	65	62	61	61
Farm and ranch lands protection program	29	89	89	93	97	97
Federal-Aid Highways	....	....	802	724	675	658
Food Stamps:						
Benefit costs	17,446	38,279	38,542	38,547	39,138	39,671
State administrative expenses	1,310	2,723	2,829	2,939	3,053	3,172
Employment and training	177	363	372	382	392	402
Other program cost	34	79	70	72	73	75
Nutrition assistance for Puerto Rico	811	1,678	1,720	1,759	1,800	1,841
Food distribution on Indian Reservations	44	92	94	97	98	101
The emergency food assistance program commodities	70	140	140	140	140	140
Promoting safe and stable families	....	....	....	....	128	274
Temporary assistance for needy families (TANF) resources:						
TANF	....	....	....	12,373	15,394	16,235
Contingency fund	....	....	....	241	284	286
Welfare research	....	....	....	1	6	12
Trade Adjustment Assistance for Workers	383	764	926	981	1,010	1,039
Veterans Compensation:						
VBA OBRA and VBA IT OBRA	....	1	2	2	2	2
Veterans Pension:						
Income Verification Match	....	....	–3	–7	–11	–14
Sunset Medicaid Provision	....	....	....	....	–576	–576
VBA OBRA and VBA IT OBRA	....	9	9	9	9	10
VHA OBRA and VHA IT OBRA	....	16	17	18	20	21
Veterans compensation—annual cost of living adjustment	....	687	1,460	2,330	3,272	4,272
Revenues:						
Airports and Airway Trust Fund Taxes	6,981	11,964	12,696	13,416	14,176	14,979
Sport Fish Restoration and Boating	....	....	....	....	516	534
Highway Trust Fund Taxes	....	....	....	....	33,892	34,465
LUST Taxes	....	....	....	....	206	208
Provisions Not Extended in the Baseline						
Spending:						
Biobased product testing	1	1	1	1	1	1
Biodiesel fuel education	1	1	1	1	1	1
Biomass research and development	14	14	14	14	14	14
Coastal Impact Assistance	....	....	....	250	250	250
EPA:						
Pesticide maintenance fee	....	....	....	....	....	–22
Pesticide registration service fee	....	....	....	....	....	–3
Farm bill programs:						
Klamath Basin	6	7	8	8	8	8

Table 25–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(In millions of dollars)

	Estimate					
	2008	2009	2010	2011	2012	2013
Foreign market development (cooperator) program	19	35	35	35	35	35
Grassland reserve program	7	14	15	15	15	15
Small watershed rehabilitation program		38	56	65	65	65
Technical assistance specialty crops	1	2	2	2	2	2
Trade adjustment for farmers	90	90	90	90	90	90
Wetlands reserve program	48	19	19	88	123	149
Wildlife habitat incentives program	20	20	36	47	57	66
Forest County Safety Net Payments		438	451	464	478	493
Medicaid:						
Transitional medical assistance	554	580	601	625	650	676
Medicare low-income premium assistance	425	470	515	570	635	705
Renewable Energy Systems and Energy Efficiency	23	23	23	23	23	23
Rural Broadband Access Loan Program	10	10	10	10	10	10
TANF—supplemental grants		236	294	310	316	319
Trade Adjustment Assistance—Alternative TAA		7	23	32	34	34
Value-Added Agricultural Product Market Development Grants	40	40	40	40	40	40
Veterans Housing:						
Increases the loan fee for certain loans					–234	–235
Veterans Compensation:						
Health and Human Services					1	1
New Hires Directory Match					–1	–1
OTHER IMPORTANT PROGRAM ASSUMPTIONS						
Child support enforcement (CSE):						
Alternative penalties for Family Support Act systems and State Disbursement Unit requirements	–7	–7	–7	–7		
Food stamps:						
Tax Offset, recoupment, and general claims collections	–189	–194	–198	–203	–207	–211
Quality control liabilities	–3	–3	–3	–3	–3	–3
Allocation of administrative costs between public assistance programs	–197	–197	–197	–197	–197	–197
Medicare:						
FFS Physicians	60,636	56,876	55,755	54,282	53,577	56,659
Contracting reform	–70	–280	–550	–580	–620	–660
Part D risk score normalization		395	577	728	692	840
Medicaid:						
Financial management recoveries	–633	–682	–734	–792	–855	–923
Vaccines for children, total program costs	2,702	2,766	2,710	2,686	2,678	2,630
Remaining upper payment limit-related costs	1,600	1,400	1,500	1,500	1,600	1,700
Institutional long-term care	34,919	36,584	38,549	40,702	42,990	45,474
Home and community based institutional alternatives	25,717	28,055	31,312	35,063	39,261	44,069
Pharmaceuticals (FFS, net of rebates)	9,933	10,820	11,543	12,314	13,111	13,967
Managed care (Including Medicaid MCOs, PHPs, and PCCM)	40,440	44,833	49,280	54,088	59,110	64,451
State Children's Health Insurance Program (Title XXI)	7,600	6,097	5,783	5,334	5,203	5,143
Approved Demonstrations and Pilot Programs:						
Medicare, HI:						
Rural Hospice:						
Baseline Estimate	3	3	4			
Demonstration estimate	3	3	4			
Mercy Medical Demonstration:						
Baseline estimate	2					
Demonstration estimate	2					
Premier:						
Baseline estimate	2,703	2,827				
Demonstration estimate	2,715	2,839	12			
Rural Community Hospital: [3]						
Baseline estimate	51	53	33			
Demonstration estimate	60	63	40			
New York Graduate Medical Education:						
Baseline estimate	69					
Demonstration estimate	17	2				
Utah Graduate Medical Education:						
Baseline estimate	9	9	9			
Demonstration estimate	9	9	9			
Medicare, SMI:						
Medicare Health Support Program:						
Baseline estimate						
Program Estimate	81	58	25			

Table 25–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(In millions of dollars)

	Estimate					
	2008	2009	2010	2011	2012	2013
Municipal Health Services Program Demonstration:						
Baseline estimate	....	....	....	....	....	....
Demonstration estimate	3	....	....	....	....	....
United Mine Workers of America (UMWA) Prescription Drug:						
Baseline estimate	....	....	....	....	....	....
Demonstration estimate	6	3	....	....	....	....
Coordinated Care Disease Management Demonstration:						
Baseline estimate	79	....	....	....	....	....
Demonstration estimate	79	....	....	....	....	....
Lifemasters Disease Management Dual Eligibles Demonstration:						
Baseline estimate	142	....	....	....	....	....
Demonstration estimate	142	....	....	....	....	....
Care Management for High-Cost Beneficiaries:						
Baseline estimate	55	....	....	....	....	....
Demonstration estimate	55	....	....	....	....	....
Low-Vision Rehabilitation:						
Baseline estimate	8	8	8	....	....	....
Demonstration estimate	10	10	10	....	....	....
Cancer Prevention and Treatment for Ethnic and Racial Minorities:						
Baseline estimate	8	7	8	....	....	....
Demonstration estimate	8	7	8	....	....	....
Medical Adult Day Care Demonstration:						
Baseline estimate	3	3	....	....	....	....
Demonstration estimate	2	2	....	....	....	....
Demo to Limit Annual Change in Part D Premiums:						
Baseline estimate:						
Demonstration estimate	280	60	....	....	....	....
Demo to Transition Enrollment of "Low-Income Subsidy Beneficiaries:						
Baseline estimate	....	....	....	....	....	....
Demonstration estimate	277	240	140	30	....	....
Medicare: HI and SMI:						
ESRD Disease Management Demonstration:						
Baseline estimate	193	203	52	....	....	....
Demonstration estimate	193	203	52	....	....	....
Home Health Third-Party Liability Demonstration:						
Baseline estimate	188	191	191	55	....	....
Demonstration estimate	183	186	186	50	....	....
Medicare+Choice Phase I Demonstration:						
Baseline estimate	....	....	....	....	....	....
Demonstration estimate	3	....	....	....	....	....
Medicare+Choice Phase II Demonstration:						
Baseline estimate	....	....	....	....	....	....
Demonstration estimate	66	....	....	....	....	....
S/HMO I Demonstration:						
Baseline estimate	2,121	2,047	2,293	2,568	....	....
Demonstration estimate	2,230	2,131	2,345	2,579	....	....
S/HMO II Demonstration:						
Baseline estimate	760	745	835	935	....	....
Demonstration estimate	787	766	847	938	....	....
Physician Group Practice Demonstration:						
Baseline estimate	880	....	....	....	....	....
Demonstration estimate	880	....	....	....	....	....
Medical Savings Account:						
Baseline estimate	1	4	6	8	....	....
Demonstration estimate	....	....	....	....	....	....
United Mine Workers of American (UMWA) Health:						
Baseline estimate	....	....	....	....	....	....
Demonstration estimate	11	6	....	....	....	....
Home Health Pay for Performance:						
Baseline estimate	1,116	1,513	390	....	....	....
Demonstration estimate	1,116	1,513	390	....	....	....
PACE for Profit:						
Baseline estimate	5	10	15	....	....	....
Demonstration estimate	5	10	15	....	....	....
Medicare Care Management Performance:						
Baseline estimate	3,728	3,889	3,011	....	....	....
Demonstration estimate	3,699	3,837	2,960	14	....	....

Table 25–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(In millions of dollars)

	Estimate					
	2008	2009	2010	2011	2012	2013
Medicaid:						
Alabama Family Planning:						
Baseline estimate	240					
Arizona AHCCCS:						
Baseline estimate	4,839	5,356	5,932	6,571		
Arkansas ARKids B:						
Baseline estimate	102					
Arkansas Family Planning Services:						
Baseline estimate	249					
Arkansas Independent Choices (Cash & Counseling):[5,7]						
Baseline estimate	5					
Arkansas TEFRA:						
Baseline estimate	28	31	34	9		
California Family Planning:[6]						
Baseline estimate						
California In-Home Supportive Services Plus:[5]						
Baseline estimate	378	357				
California MediCal Hospital/Uninsured Care:						
Baseline estimate	766	766	702			
Colorado Consumer Directed Attendant Support:[5,7]						
Baseline estimate	3					
Delaware Diamond State Health Plan:						
Baseline estimate	286	302	76			
District of Columbia Childless Adults:						
Baseline estimate	3					
District of Columbia HIV:						
Baseline estimate	14	18	6			
Florida Consumer Directed Care Plus (Cash & Counseling):[5,7]						
Baseline estimate	26					
Florida Family Planning:						
Baseline estimate	967	1,028				
Florida MEDS-AD Program:						
Baseline estimate	1,072	1,180	1,298			
Florida Medicaid Reform:						
Baseline estimate	5,662	6,589	7,683	4,137		
Hawaii Health QUEST:						
Baseline estimate	289	237				
Illinois Family Planning:						
Baseline estimate	443					
Healthy Indiana Plan:						
Baseline estimate	833	1,192	1,299	1,404	1,541	394
IowaCare:						
Baseline estimate	117	125	134			
Iowa Family Planning:						
Baseline estimate	189	205				
Kentucky Health Care Partnership Program:						
Baseline estimate	568	48				
Louisiana Family Planning:						
Baseline estimate	483	525	569			
Maine HIV:						
Baseline estimate	7	7	6			
MaineCare Childless Adults:						
Baseline estimate	57	57	57			
Maryland Health Choice:						
Baseline estimate	1,086					
Massachusetts MassHealth:						
Baseline estimate	2,960					
Michigan Family Planning:						
Baseline estimate	462	503	547			
Minnesota Prepaid Med. Assist. Project Plus:						
Baseline estimate	148					
Minnesota Family Planning:						
Baseline estimate	284	325				
Mississippi Family Planning:						
Baseline estimate	146					
Mississippi—Healthier Mississippi:						
Baseline estimate	78	86				

Table 25–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(In millions of dollars)

	Estimate					
	2008	2009	2010	2011	2012	2013
Missouri Family Planning:						
Baseline estimate	277	303	331	....	....	....
Montana Basic Medicaid for Able-Bodied Adults:						
Baseline estimate	39	13	....	....	....	....
New Jersey Personal Preference (Cash & Counseling): [5 7]						
Baseline estimate	3	....	....	....	....	....
New Mexico Family Planning:						
Baseline estimate	114	119	....	....	....	....
New York Partnership Plan:						
Baseline estimate	7,823	7,685	....	....	....	....
New York Federal-State Health Reform Partnership:						
Baseline estimate	10,907	11,609	12,357	13,153	....	....
North Carolina Family Planning:						
Baseline estimate	457	494	....	....	....	....
Oklahoma Family Planning:						
Baseline estimate	166	....	....	....	....	....
Oregon Family Planning:						
Baseline estimate	169	183	....	....	....	....
Oregon Independent Choices: [5 7]						
Baseline estimate	2	....	....	....	....	....
Oregon Health Plan: [2]						
Baseline estimate	1,681	1,812	1,960	....	....	....
Pennsylvania Family Planning:						
Baseline estimate	307	333	361	....	....	....
Rhode Island Rite Care:						
Baseline estimate	169	....	....	....	....	....
South Carolina Family Planning:						
Baseline estimate	396	413	431	....	....	....
TennCare II:						
Baseline estimate	4,328	4,708	3,837	....	....	....
Texas Family Planning:						
Baseline estimate	1,466	1,633	1,819	2,026	....	....
Utah Primary Care Network:						
Baseline estimate	110	117	....	....	....	....
Vermont Long Term Care Plan:						
Baseline estimate	135	149	166	....	....	....
Vermont Global Commitment to Health:						
Baseline estimate	538	586	639	160	....	....
Virginia Family Planning:						
Baseline estimate	214	228	244	....	....	....
Washington Take Charge/Family Planning:						
Baseline estimate	312	329	....	....	....	....
Wisconsin BadgerCare:						
Baseline estimate	88	92	39	....	....	....
Wisconsin Family Planning:						
Baseline estimate	326	387	450	....	....	....
Pharmacy Plus:						
Wisconsin Pharmacy Plus:						
Demonstration estimate	51	62	18	....	....	....
State Children's Health Insurance Program (Title XXI): [4]						
Alaska Denali KidCare:						
Demonstration estimate	10	11	....	....	....	....
Hawaii QUEST:						
Demonstration estimate	9	....	....	....	....	....
Maryland Health Choice: [8]						
Demonstration estimate	19	....	....	....	....	....
MinnesotaCare:						
Demonstration estimate	41	39	....	....	....	....
New Jersey FamilyCare:						
Demonstration estimate	173	....	....	....	....	....
Oregon Health Plan 2: [9]						
Demonstration estimate	40	40	40	....	....	....
Rhode Island (SCHIP RiteCare):						
Demonstration estimate	11	....	....	....	....	....
Wisconsin BadgerCare:						
Demonstration estimate	64	69	36	....	....	....

Table 25–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(In millions of dollars)

	Estimate					
	2008	2009	2010	2011	2012	2013
Health Insurance Flexibility and Accountability (HIFA) demonstrations (Medicaid and/or SCHIP): [4]						
Arizona HIFA:						
Demonstration estimate	29	24	26	28	....	....
Arkansas HIFA:						
Demonstration estimate (SCHIP funds)	8	13	24	31	....	....
Baseline estimate (Medicaid funds)	1,604	1,813	2,049	2,318	....	....
Colorado HIFA:						
Demonstration estimate	16	18	....	....	....	....
Idaho HIFA:						
Demonstration estimate (SCHIP funds)	14	11	....	....	....	....
Michigan HIFA:						
Demonstration estimate (SCHIP funds)	112	24	....	....	....	....
Nevada HIFA:						
Demonstration estimate (SCHIP funds)	16	19	21	17	....	....
New Mexico HIFA:						
Demonstration estimate (SCHIP funds)	24	27	....	....	....	....
Oklahoma Sooner Care Demo+HIFA:						
Baseline estimate	1,071	1,137	289	....	....	....
Virginia HIFA:						
Demonstration estimate (SCHIP funds)	9	10	....	....	....	....
Joint Medicare and Medicaid:						
Minnesota-Dual Eligibles:						
Baseline estimate	913	808	904	1,013	....	....
Demonstration estimate	992	869	942	1,021	....	....
Wisconsin Health Partnership Dual Eligible Demonstration:						
Baseline estimate	68	73	82	92	....	....
Demonstration estimate	76	79	86	93	....	....
Massachusetts SCO Dual Eligible Demonstration:						
Baseline estimate	166	171	192	215	....	....
Demonstration estimate	181	183	199	216	....	....
OASI, DI, SSI:						
Performance of continuing disability reviews (baseline levels):						
OASDI	–15	–78	–151	–208	–311	–585
SSI	34	126	243	410	513	769
Collection of overpayments:						
OASI	–894	–969	–1,041	–1,112	–1,184	–1,262
DI	–715	–776	–835	–893	–952	–1,013
SSI (federal)	–949	–997	–1,049	–1,100	–1,161	–1,218
Debts written off as uncollectable (no effect on outlays):						
OASI	151	163	176	188	200	213
DI	544	590	635	680	725	770
SSI (federal)	431	453	477	500	528	554
OASDI:						
Payments to states for vocational rehabilitation	88	76	82	90	95	102
Research and demonstration projects	44	37	17	....	....	....
SSI:						
Payments from states for state supplemental benefits	–4,476	–4,667	–4,871	–5,045	–5,365	–5,538
Payments for state supplemental benefits	4,460	4,650	4,855	5,465	4,905	5,520
Fees for administration of State supplement						
Treasury share	–139	–142	–148	–164	–142	–157
SSA share	–135	–145	–159	–184	–166	–193
Payments to states for vocational rehabilitation	56	56	59	63	67	71
Performance of non-disability redeterminations (excludes related overpayment collections reported above)	528	–104	–63	15	–16	–978
Research and demonstration projects	28	29	35	35	35	35
State grants and demonstrations-health care:						
Ticket to Work Health Grant Programs:						
Infrastructure Grant Program	35	40	45	50	55	55
Demonstration to maintain independence and employment	22	25	5	....	....	....
High-Risk Pools:						
Initial Seed Grants	52	....	....	....	....	....
Operation of Pools	10	....	....	....	....	....
Emergency Health Services for Undocumented Aliens	221	221	221	32	....	....
Pilot Program for National and State Background Checks	8	....	....	....	....	....
Katrina Relief	163	....	....	....	....	....
Site Development Grants—Rural PACE	7	....	....	....	....	....
Funding for PACE Outliers	5	3	3	....	....	....
Drug Surveys and Reports	3	3	3	3	....	....

Table 25–6. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued

(In millions of dollars)

	Estimate					
	2008	2009	2010	2011	2012	2013
Partnerships for Long-Term Care	3	3	3	3	....	....
Alternate Non-Emergency Care	28	22	13	....	....	....
Psychiatric Residential Treatment Demonstration	33	42	54	53	32	....
Money Follows the Person (MFP) Demonstration	217	348	348	348	174	....
MFP Evaluation and Support	1	2	1	1	1	....
Medicaid Transformation Grants	73	75	....	....	....	....
Medicaid Integrity Program	97	75	75	75	75	75

* $500,000 or less.
NA = Not available.
[1] Medicare and Medicaid/SCHIP regulations reflect gross outlays.
[2] Baseline estimates reflect costs absent the demonstration; demonstration estimates reflect costs of the demonstration. The differences represent the net impact of the demonstration. Any demonstrations are implicitly assumed in the current services baseline.
[3] Costs of this demonstration are offset annually by a reduction to inpatient hospital prospective payment rates.
[4] The Administration is phasing out HIFA demonstrations, refocusing SCHIP on covering children, and will not use SCHIP funds to cover parents or childless adults.
[5] Consumer directed program in which "plan of care" is converted to a cash allotment. It is expected that these will convert to DRA State Plan option upon expiration.
[6] The Federal Government does not have current estimates for California; the State has been operating under a temporary extension for three years.
[7] Expires during 2008 and will convert to DRA State Plan option upon expiration.
[8] States project covering a portion of their entire demonstration population with Medicaid funds.
[9] The Oregon Health Plan 2 estimates represent SCHIP State plan costs for 2008. The allotment neutrality agreement is in the process of being finalized.

Current Services Receipts, Outlays, and Budget Authority

Receipts.—Table 25–7 shows baseline receipts by major source. Total receipts are projected to increase by $153 billion from 2008 to 2009 and by $639 billion from 2009 to 2013, largely due to assumed increases in incomes resulting from both real economic growth and inflation.

Individual income taxes are estimated to increase by $105 billion from 2008 to 2009 under baseline assumptions. This growth of 8.6 percent is primarily the effect of increased collections resulting from rising personal incomes. Individual income taxes are projected to grow at an annual rate of 6.4 percent between 2009 and 2013.

Table 25–7. BASELINE RECEIPTS BY SOURCE

(In billions of dollars)

	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Individual income taxes	1,163	1,232	1,337	1,421	1,513	1,610	1,713
Corporation income taxes	370	349	348	349	366	402	391
Social insurance and retirement receipts	870	910	955	1,011	1,065	1,115	1,169
On-budget	235	248	258	270	284	297	310
Off-budget	635	662	697	740	781	818	858
Excise taxes	65	69	69	70	76	79	81
Estate and gift taxes	26	27	26	20	1	*	1
Other receipts	74	76	79	84	89	95	100
Total, receipts	2,568	2,662	2,815	2,954	3,110	3,301	3,454
On-budget	1,933	1,999	2,118	2,214	2,329	2,483	2,595
Off-budget	635	662	697	740	781	818	858

* $500 million or less.

Corporation income taxes are estimated to decline by $0.3 billion between 2008 and 2009, in large part due to economic factors, an increase in the estimated receipt loss attributable to the domestic manufacturing deduction, and an expected decline in payments of back taxes. Corporation income taxes are projected to increase at an annual rate of 2.9 percent from 2009 to 2013, reflecting the effect of higher corporate profits and legislated tax changes.

Social insurance and retirement receipts are estimated to increase by $45 billion between 2008 and 2009, and by an additional $214 billion between 2009 and 2013. The estimates reflect assumed increases in total wages and salaries paid, and scheduled increases in the social security taxable earnings base from $102,000 in 2008 to $126,900 in 2013.

Excise taxes increase by $12 billion from 2008 to 2013, in large part due to increased economic activity and the expiration of various excise tax credits. Estate and gift taxes remain relatively level until 2009 and then decline beginning in 2010, reflecting the repeal of the estate tax in that year. Other baseline receipts (customs duties and miscellaneous receipts) are projected to increase by $24 billion from 2008 to 2013 in large part due to growth in imports and increased deposits of earnings by the Federal Reserve System.

Outlays.—Current services outlays are estimated to grow from $2,900 billion in 2008 to $2,993 billion in 2009, a 3.2 percent increase. Between 2008 and 2013, current services outlays are projected to increase at an average annual rate of 3.6 percent. Table 25–8 shows the growth from 2008 to 2009 and average annual growth over the five-year period for certain discretionary and major mandatory programs.

Even though most discretionary budget authority is assumed to grow with inflation, outlays for discretionary programs decline slightly from $1,109 billion in 2008 to $1,092 billion in 2009 and further in 2010. These declines are due to the baseline assuming no additional spending for the war beyond what is already enacted. Outlays increase each year after 2010, reflecting increases in resources to keep pace with inflation, reaching $1,114 billion in 2013. Entitlement and other mandatory programs are estimated to grow from $1,551 billion in 2008 to $1,653 billion in 2009, and to $2,065 billion in 2013, due in large part to changes in the number of beneficiaries and to automatic cost-of-living adjustments and other adjustments for inflation. Social Security outlays grow from $610 billion in 2008 to $814 billion in 2013, an average annual rate of 5.9 percent. Medicare and Medicaid are projected to grow at annual average rates of 7.2 and 7.4 percent, respectively, outpacing inflation. Other areas of growth include veterans programs (6.6 percent) and unemployment compensation (4.9 percent). Net interest payments total $241 billion in 2008 and $249 billion in 2009 and maintain a constant average growth through the projection period.

Tables 25–9 and 25–10 show current services outlays by function and by agency, respectively. A more detailed presentation of outlays (by function, subfunction, category, and program) is available on the Internet and on the CD-ROM enclosed with the printed version of this document.

Budget authority.—Tables 25–11 and 25–12 show current services estimates of budget authority by function and by agency, respectively. A more detailed presentation of budget authority with program level estimates is available on the Internet and on the CD-ROM enclosed with the printed version of this document.

Table 25–8. CHANGE IN BASELINE OUTLAY ESTIMATES BY CATEGORY

(Dollar amounts in billions)

	2008	2009	2013	Change 2008 to 2009		Change 2008 to 2013	
				Amount	Percent	Amount	Annual average rate
Outlays:							
Discretionary:							
DOD-Military	555	538	536	–17	–3.0%	–18	–0.7%
Homeland security	36	39	42	3	7.7%	6	3.2%
International affairs	37	36	38	–2	–4.4%	*	0.3%
Other discretionary	481	479	498	–2	–0.4%	17	0.7%
Subtotal, discretionary	1,109	1,092	1,114	–17	–1.6%	5	0.1%
Mandatory:							
Farm programs	11	14	13	2	19.0%	1	2.3%
Medicaid	204	218	292	14	6.8%	88	7.4%
Other health	26	26	31	*	0.1%	5	3.3%
Medicare	391	420	553	29	7.4%	162	7.2%
Federal employee retirement and disability	109	114	129	5	4.4%	20	3.5%
Unemployment compensation	35	37	44	3	7.6%	9	4.9%
Other income security programs	186	192	209	6	3.3%	23	2.3%
Social Security	610	645	814	35	5.7%	204	5.9%
Veterans programs	45	48	62	3	7.0%	17	6.6%
Other mandatory programs	21	19	18	–2	–8.4%	–3	–2.9%
Undistributed offsetting receipts	–87	–80	–99	7	–8.4%	–12	2.5%
Subtotal, mandatory	1,551	1,653	2,065	102	6.6%	514	5.9%
Net interest	241	249	284	8	3.4%	44	3.4%
Total outlays	2,900	2,993	3,464	93	3.2%	563	3.6%

* $500 million or less.

Table 25–9. CURRENT SERVICES OUTLAYS BY FUNCTION

(In billions of dollars)

Function	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
National defense:							
Department of Defense—Military	529.8	556.7	540.9	508.5	515.4	526.5	539.7
Other	22.7	24.0	23.8	23.8	23.3	23.8	24.3
Total, National defense	552.6	580.7	564.7	532.3	538.7	550.3	564.0
International affairs	28.5	33.7	33.2	32.8	34.5	35.2	35.3
General science, space, and technology	25.6	27.6	28.5	28.3	28.9	29.6	30.2
Energy	–0.9	3.0	3.8	4.1	4.5	4.2	4.0
Natural resources and environment	31.8	35.6	36.6	34.0	33.7	34.3	35.3
Agriculture	17.7	20.9	19.7	19.0	19.1	19.2	19.5
Commerce and housing credit	0.5	7.4	4.0	1.7	1.2	1.4	1.7
On-Budget	(-4.6)	(6.4)	(2.9)	(0.7)	(0.6)	(0.9)	(1.7)
Off-Budget	(5.1)	(0.9)	(1.1)	(1.0)	(0.5)	(0.5)	(*)
Transportation	72.9	80.3	85.5	85.8	86.8	87.8	89.8
Community and regional development	29.6	27.6	23.2	20.4	17.6	16.2	15.8
Education, training, employment, and social services	91.7	93.4	89.7	92.7	95.7	97.5	99.3
Health	266.4	284.5	300.1	317.1	335.8	358.1	382.1
Medicare	375.4	396.2	425.2	454.4	500.2	500.1	558.7
Income security	366.0	388.4	402.0	414.2	427.7	426.9	441.6
Social security	586.2	615.3	650.2	687.5	727.0	771.0	820.1
On-Budget	(19.3)	(18.7)	(22.9)	(25.3)	(27.5)	(30.3)	(33.6)
Off-Budget	(566.8)	(596.5)	(627.3)	(662.2)	(699.5)	(740.7)	(786.5)
Veterans benefits and services	72.8	86.6	88.6	92.6	100.6	97.7	106.4
Administration of justice	41.2	46.2	49.1	48.2	48.4	49.7	51.2
General government	17.5	19.7	20.4	20.6	21.6	22.7	23.3
Net interest	237.1	240.6	248.8	262.1	273.8	280.5	284.4
On-Budget	(343.1)	(354.9)	(370.6)	(393.6)	(416.0)	(435.2)	(452.1)
Off-Budget	(-106.0)	(-114.3)	(-121.9)	(-131.4)	(-142.2)	(-154.7)	(-167.7)
Undistributed offsetting receipts:							
Employer share, employee retirement (on-budget)	–49.5	–51.4	–54.0	–58.4	–62.2	–66.0	–70.4
Employer share, employee retirement (off-budget)	–12.3	–13.1	–13.8	–14.6	–15.5	–16.3	–17.3
Rents and royalties on the Outer Continental Shelf	–6.8	–11.1	–10.1	–10.2	–10.7	–11.1	–11.4
Sale of major assets	....	....	....	....	....	–0.3	....
Other undistributed offsetting receipts	–13.7	–11.8	–2.2	–0.1	–0.1	....	....
Total, Undistributed offsetting receipts	–82.2	–87.4	–80.1	–83.3	–88.5	–93.7	–99.1
On-Budget	(-69.9)	(-74.3)	(-66.3)	(-68.8)	(-72.9)	(-77.4)	(-81.8)
Off-Budget	(-12.3)	(-13.1)	(-13.8)	(-14.6)	(-15.5)	(-16.3)	(-17.3)
Total	**2,730.2**	**2,900.2**	**2,993.1**	**3,064.7**	**3,207.1**	**3,288.8**	**3,463.5**
On-Budget	(2,276.6)	(2,430.1)	(2,500.4)	(2,547.5)	(2,664.8)	(2,718.5)	(2,862.0)
Off-Budget	(453.6)	(470.1)	(492.7)	(517.2)	(542.3)	(570.3)	(601.5)

* $50 million or less.

Table 25–10. CURRENT SERVICES OUTLAYS BY AGENCY

(In billions of dollars)

Agency	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Legislative Branch	4.3	4.6	4.5	4.8	4.8	5.0	5.1
Judicial Branch	6.0	6.2	6.7	6.8	7.1	7.3	7.5
Agriculture	84.4	94.5	95.3	95.6	96.7	98.9	101.2
Commerce	6.5	8.2	8.2	7.7	7.6	7.7	7.9
Defense—Military	529.9	556.7	540.9	508.5	515.4	526.5	539.7
Education	66.4	68.0	64.7	67.1	69.5	70.8	72.0
Energy	20.1	23.2	23.3	23.4	23.0	23.4	23.8
Health and Human Services	672.0	709.2	751.8	797.0	860.9	881.7	963.0
Homeland Security	39.2	42.3	42.4	40.2	41.1	40.8	41.6
Housing and Urban Development	45.6	52.3	46.1	44.9	42.1	41.6	41.1
Interior	10.5	11.1	11.2	11.0	11.0	11.2	11.6
Justice	23.3	24.9	27.0	26.8	26.7	27.3	28.1
Labor	47.5	49.7	51.7	54.1	55.7	57.9	60.1
State	13.7	18.0	19.6	18.4	19.2	19.7	20.2
Transportation	61.7	68.7	72.3	72.5	72.8	73.4	74.9
Treasury	490.6	516.8	538.4	567.2	595.7	618.3	642.8
Veterans Affairs	72.8	86.6	88.6	92.5	100.4	97.5	106.2
Corps of Engineers	3.9	7.2	8.4	5.8	5.6	5.7	5.9
Other Defense Civil Programs	47.1	49.1	51.2	52.7	54.0	55.1	56.0
Environmental Protection Agency	8.3	7.5	8.2	8.3	8.3	8.4	8.6
Executive Office of the President	3.0	2.1	0.5	0.4	0.4	0.4	0.4
General Services Administration	*	0.4	0.5	–0.2	–0.1	–0.1	–0.1
International Assistance Programs	12.8	15.1	14.3	15.1	15.9	16.2	15.8
National Aeronautics and Space Administration	15.9	17.3	18.1	17.7	18.1	18.6	19.0
National Science Foundation	5.5	6.3	6.2	6.3	6.4	6.6	6.6
Office of Personnel Management	58.4	64.2	67.2	69.7	71.7	74.5	77.2
Small Business Administration	1.2	0.5	0.8	0.6	0.6	0.6	0.7
Social Security Administration	621.8	656.6	693.6	733.8	780.2	818.6	873.9
On-Budget	(54.9)	(60.0)	(66.4)	(71.6)	(80.7)	(77.9)	(87.5)
Off-Budget	(566.8)	(596.5)	(627.3)	(662.2)	(699.5)	(740.7)	(786.5)
Other Independent Agencies	18.0	18.4	20.6	19.5	19.5	19.4	19.5
On-Budget	(12.9)	(17.5)	(19.5)	(18.5)	(19.0)	(18.9)	(19.5)
Off-Budget	(5.1)	(0.9)	(1.1)	(1.0)	(0.5)	(0.5)	(0.0)
Undistributed Offsetting Receipts	–260.2	–285.3	–288.9	–303.5	–323.1	–344.1	–366.6
On-Budget	(-141.9)	(-157.9)	(-153.2)	(-157.5)	(-165.3)	(-173.1)	(-181.6)
Off-Budget	(-118.3)	(-127.4)	(-135.6)	(-146.0)	(-157.8)	(-171.0)	(-185.0)
Total	**2,730.2**	**2,900.2**	**2,993.1**	**3,064.7**	**3,207.1**	**3,288.8**	**3,463.5**
On-Budget	(2,276.6)	(2,430.1)	(2,500.4)	(2,547.5)	(2,664.8)	(2,718.5)	(2,862.0)
Off-Budget	(453.6)	(470.1)	(492.7)	(517.2)	(542.3)	(570.3)	(601.5)

* $50 million or less.

Table 25–11. CURRENT SERVICES BUDGET AUTHORITY BY FUNCTION

(In billions of dollars)

Function	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
National defense:							
Department of Defense—Military	603.0	568.1	494.8	507.8	521.3	535.2	549.4
Other	22.9	22.5	22.7	23.1	23.6	24.0	24.5
Total, National defense	625.8	590.6	517.5	530.9	544.8	559.2	573.9
International affairs	68.4	34.0	33.7	34.6	35.4	36.3	37.2
General science, space, and technology	26.3	27.4	28.0	28.6	29.3	29.9	30.6
Energy	0.6	2.8	4.2	4.5	4.6	4.2	4.0
Natural resources and environment	33.8	32.6	32.2	32.8	33.3	34.2	35.3
Agriculture	22.8	17.9	20.9	20.2	20.2	20.5	20.8
Commerce and housing credit	10.0	9.3	12.4	11.2	11.2	11.5	9.1
On-Budget	(1.1)	(6.2)	(8.6)	(8.7)	(9.0)	(9.6)	(10.2)
Off-Budget	(8.9)	(3.1)	(3.8)	(2.5)	(2.2)	(1.9)	(-1.1)
Transportation	78.7	76.3	71.8	82.3	83.2	84.1	85.1
Community and regional development	17.6	19.8	14.4	14.8	15.1	15.5	15.8
Education, training, employment, and social services	93.7	91.7	92.3	95.9	97.4	100.9	97.8
Health	244.3	286.0	299.4	319.6	340.6	362.8	387.6
Medicare	385.0	402.8	425.3	454.4	500.5	500.5	558.7
Income security	368.0	383.4	402.5	415.4	431.6	430.6	446.0
Social security	589.0	617.9	653.3	690.6	730.4	774.8	824.3
On-Budget	(19.3)	(18.7)	(22.9)	(25.3)	(27.5)	(30.3)	(33.6)
Off-Budget	(569.6)	(599.2)	(630.4)	(665.3)	(702.9)	(744.6)	(790.7)
Veterans benefits and services	79.6	88.0	87.5	93.5	97.9	103.0	107.5
Administration of justice	46.2	46.4	47.4	46.9	48.4	50.0	51.6
General government	18.6	20.2	20.7	21.6	22.4	23.2	23.9
Net interest	237.1	240.6	248.8	262.1	273.8	280.5	284.4
On-Budget	(343.1)	(354.9)	(370.6)	(393.6)	(416.0)	(435.2)	(452.1)
Off-Budget	(-106.0)	(-114.3)	(-121.9)	(-131.4)	(-142.2)	(-154.7)	(-167.7)
Undistributed offsetting receipts:							
Employer share, employee retirement (on-budget)	–49.5	–51.4	–54.0	–58.4	–62.2	–66.0	–70.4
Employer share, employee retirement (off-budget)	–12.3	–13.1	–13.8	–14.6	–15.5	–16.3	–17.3
Rents and royalties on the Outer Continental Shelf	–6.8	–11.1	–10.1	–10.2	–10.7	–11.1	–11.4
Sale of major assets	....	....	....	....	....	–0.3	....
Other undistributed offsetting receipts	–13.7	–11.8	–2.2	–0.1	–0.1	....	....
Total, Undistributed offsetting receipts	–82.2	–87.4	–80.1	–83.3	–88.5	–93.7	–99.1
On-Budget	(-69.9)	(-74.3)	(-66.3)	(-68.8)	(-72.9)	(-77.4)	(-81.8)
Off-Budget	(-12.3)	(-13.1)	(-13.8)	(-14.6)	(-15.5)	(-16.3)	(-17.3)
Total	**2,863.3**	**2,900.5**	**2,932.2**	**3,076.7**	**3,231.4**	**3,328.0**	**3,494.5**
On-Budget	(2,403.1)	(2,425.6)	(2,433.6)	(2,554.8)	(2,684.2)	(2,752.6)	(2,889.9)
Off-Budget	(460.2)	(474.9)	(498.6)	(521.8)	(547.2)	(575.4)	(604.6)
MEMORANDUM							
Discretionary budget authority:							
National defense	622.4	587.2	513.1	526.5	540.4	554.6	569.3
International	39.1	36.4	34.8	35.5	36.3	37.2	38.0
Domestic	410.8	422.2	420.3	430.4	441.5	453.0	464.8
Total	**1,072.3**	**1,045.8**	**968.2**	**992.5**	**1,018.2**	**1,044.7**	**1,072.1**

Table 25–12. CURRENT SERVICES BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

Agency	2007 Actual	Estimate					
		2008	2009	2010	2011	2012	2013
Legislative Branch	4.3	4.4	4.6	4.7	4.9	5.0	5.2
Judicial Branch	6.2	6.5	6.7	6.9	7.1	7.4	7.6
Agriculture	91.8	90.5	98.4	99.0	100.5	102.9	105.3
Commerce	7.8	7.6	7.9	7.8	7.7	7.9	8.1
Defense—Military	603.0	568.1	494.8	507.8	521.3	535.1	549.4
Education	68.3	66.6	66.8	69.9	70.8	73.8	70.1
Energy	21.7	21.2	22.2	22.6	23.0	23.5	23.9
Health and Human Services	658.4	717.0	748.7	799.3	867.4	886.4	968.1
Homeland Security	39.7	41.1	38.6	37.5	38.7	39.8	41.0
Housing and Urban Development	35.4	40.4	40.8	41.6	42.4	43.3	44.2
Interior	10.4	10.5	10.7	10.9	10.9	11.2	11.6
Justice	24.8	24.2	26.8	25.7	26.5	27.4	28.3
Labor	47.6	49.1	52.0	53.5	55.6	57.5	59.6
State	17.1	19.9	18.8	19.2	19.7	20.1	20.6
Transportation	66.0	63.4	58.6	68.7	69.1	69.5	69.9
Treasury	492.7	519.1	540.6	569.2	597.7	620.1	645.0
Veterans Affairs	79.6	88.0	87.4	93.3	97.7	102.7	107.2
Corps of Engineers	7.0	5.6	5.3	5.5	5.6	5.8	5.9
Other Defense Civil Programs	47.2	49.0	51.2	52.7	54.0	55.1	56.0
Environmental Protection Agency	7.5	7.4	7.6	7.8	8.1	8.3	8.5
Executive Office of the President	0.4	0.3	0.3	0.4	0.4	0.4	0.4
General Services Administration	0.1	0.2	*	*	*	*	*
International Assistance Programs	51.4	13.9	14.2	14.6	14.9	15.3	15.6
National Aeronautics and Space Administration	16.3	17.1	17.5	17.9	18.3	18.8	19.2
National Science Foundation	6.1	6.2	6.3	6.4	6.5	6.7	6.8
Office of Personnel Management	61.6	66.5	70.8	72.2	74.6	77.2	79.8
Small Business Administration	0.5	0.3	0.6	0.6	0.6	0.7	0.7
Social Security Administration	626.3	658.6	695.6	736.9	783.1	822.9	878.2
On-Budget	(56.7)	(59.4)	(65.2)	(71.6)	(80.2)	(78.3)	(87.5)
Off-Budget	(569.6)	(599.2)	(630.4)	(665.3)	(702.9)	(744.6)	(790.7)
Other Independent Agencies	24.4	22.9	27.4	27.3	27.4	27.3	24.7
On-Budget	(15.5)	(19.9)	(23.6)	(24.8)	(25.2)	(25.4)	(25.8)
Off-Budget	(8.9)	(3.1)	(3.8)	(2.5)	(2.2)	(1.9)	(-1.1)
Undistributed Offsetting Receipts	–260.2	–285.3	–288.9	–303.5	–323.1	–344.1	–366.6
On-Budget	(-141.9)	(-157.9)	(-153.2)	(-157.5)	(-165.3)	(-173.1)	(-181.6)
Off-Budget	(-118.3)	(-127.4)	(-135.6)	(-146.0)	(-157.8)	(-171.0)	(-185.0)
Total	**2,863.3**	**2,900.5**	**2,932.2**	**3,076.7**	**3,231.4**	**3,328.0**	**3,494.5**
On-Budget	(2,403.1)	(2,425.6)	(2,433.6)	(2,554.8)	(2,684.2)	(2,752.6)	(2,889.9)
Off-Budget	(460.2)	(474.9)	(498.6)	(521.8)	(547.2)	(575.4)	(604.6)

* $50 million or less.

THE BUDGET SYSTEM AND CONCEPTS

26. THE BUDGET SYSTEM AND CONCEPTS

The budget system of the United States Government provides the means for the President and 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, congressional action, and budget execution. The next section provides information on budget coverage, including a discussion of on-budget and off-budget amounts, functional classification, how budget data is arrayed, 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 interrelated with the others:

(1) Formulation of the President's proposed budget;
(2) Congressional action on the budget; and
(3) Budget execution.

Formulation of the President's Budget

The Budget of the United States Government consists of several volumes that set forth the President's financial proposal with recommended 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 Congress needs to make appropriations, in this case 2009. (Fiscal year 2009 will begin on October 1, 2008 and end on September 30, 2009.) The budget also covers at least the four 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 2008, so that the reader can compare the President's budget proposals to the most recently enacted levels, and it includes data on the most recently completed fiscal year, in this case 2007, so that the reader can compare budget estimates to actual accounting data.

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 Congress and at least 18 months before the fiscal year begins. (See the "Budget Calendar" below.) Based on these guidelines, the Office of Management and Budget (OMB) works with the Federal agencies to establish specific policy directions and planning levels for the agencies, both for the budget year and for at least the following four 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 Congress is considering when the process of preparing the upcoming budget begins), and program performance influence decisions concerning the upcoming budget. So 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 the President and White House policy officials. 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 things, affect Government spending and receipts. Small changes in these assumptions can affect budget estimates by billions of dollars. (Chapter 12, "Economic Assumptions," provides more information on this subject.)

Statutory limitations on changes in receipts and outlays also influence budget decisions (see "Budget Enforcement" below).

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, the total outlays and receipts that are appropriate in relation to current and prospective economic conditions, and statutory constraints.

The law governing the President's budget specifies that the President is to transmit the budget to 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 Congress on the first Monday in February, giving Congress eight months to act on the budget before the fiscal year begins.

Congressional Action [1]

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.

Congress does not enact a budget as such. Through the process of adopting a budget resolution (described below), it agrees on levels for total spending and receipts, the size of the deficit or surplus, and the debt limit. The budget resolution then provides the framework within which congressional committees prepare appropriations bills and other spending and receipts legislation. Congress provides spending authority 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, Congress does not vote on the level of outlays (spending) directly, but rather on budget authority, which is the authority provided by law to incur financial obligations that will result in outlays. In a separate process, prior to making appropriations, Congress usually enacts legislation that authorizes an agency to carry out particular 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. Congress may enact appropriations for a program even though there is no specific authorization for it.

Congress begins its work on the budget shortly after it receives the President's budget. Under the procedures established by the Congressional Budget Act of 1974, Congress decides on budget totals before completing 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 Budget Committees then initiate the concurrent resolution on the budget. The budget resolution sets levels for total receipts and for budget authority and outlays, both in total and by functional category (see "Functional Classification" below). It also sets levels for the budget deficit or surplus and for Federal debt.

In the report on the budget resolution, the Budget Committees allocate the total on-budget budget authority and outlays provided 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.) The Appropriations Committees are required, in turn, to divide their allocations of budget authority and outlays among their respective subcommittees. The subcommittees may not exceed their allocations in drafting spending bills. The other committees with jurisdiction over spending and receipts may make allocations among their subcommittees but are not required to do so. 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 contain "reconciliation directives" (discussed below) to the committees responsible for tax laws and for spending not controlled by annual appropriation acts, in order to conform the level of receipts and this type of spending to the levels specified in the budget resolution.

The congressional timetable calls for the whole Congress to adopt the budget resolution by April 15 of each year, but Congress regularly misses this deadline. Once Congress passes a budget resolution, a member of Congress can raise a point of order to block a bill that would exceed a committee's allocation.

Since the concurrent resolution on the budget is not a law, it does not require the President's approval. However, 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

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

budget. These agreements were reflected in the budget resolution and legislation passed for those years.

Once 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. 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 agencies within the subcommittee's jurisdiction. After a bill has been drafted by a subcommittee, the committee and the whole House, in turn, must approve the bill, usually 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 Members of both bodies) 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, Congress sends it to the President for approval or veto.

For 23 of the last 26 fiscal years, including 2008, Congress has not enacted all of the appropriations bills by the beginning of the year. When this occurs, Congress usually enacts a joint resolution called a "continuing resolution," which is an interim appropriations bill, to provide authority for the affected agencies to continue operations at some specified level up to a specific date or until the regular appropriations are enacted. In some years, a continuing resolution has funded a portion or all of the Government for the entire year.

Most continuing resolutions instruct the Administration to take the most limited funding action permitted by the CR, so as not to impinge on the final funding prerogatives of the Congress. Congress must present these resolutions to the President for approval or veto. In some cases, Presidents have rejected continuing resolutions because they contained unacceptable provisions. Left without funds, Government agencies were required by law to shut down operations—with exceptions for some activities—until Congress passed a continuing resolution the President would approve. Shutdowns have lasted for periods of a day to several weeks.

As regular appropriations acts are subsequently enacted, the Executive Branch agencies typically adopt operating plans that allow the Congress to enact subsequent across-the-board reductions in the final appropriations act. Every year since fiscal year 2002, the Congress has consistently taken actions in appropriations acts to cancel amounts appropriated in previous laws. Typically, these subsequent reductions have been enacted in the latest or last appropriation act. Sometimes the last act has been a consolidated, omnibus, or supplemental appropriations act. For fiscal year 2006, the across-the-board reduction was included in the last enacted appropriations bill, which was the Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006.

Congress also provides budget authority in laws other than appropriations acts. In fact, while annual appropriations acts control the spending for the majority of Federal programs, they only control about 38 percent of the total spending in a typical year. Authorizing legislation controls the rest of the spending. A distinctive feature of these laws is that they provide agencies with the authority to collect or 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 and 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 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 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 and outlays. The budget resolution directs each designated committee to report amendments to the laws under the committee's jurisdiction that would achieve changes in the levels of receipts and reductions in direct spending controlled by the laws. The 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. Congress typically enacts an omnibus budget reconciliation act, which combines the amendments to implement reconciliation directives 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 in order to achieve budgetary savings.

The Senate considers such omnibus reconciliation acts under expedited procedures that limit total debate on the bill. As a result, there are significant restrictions with respect to the substantive content of the reconciliation measure itself, as well as permissible amendments to the measure. Any material in the bill or amendment to the bill that is not germane, would add extraneous material, would cause deficit levels to increase, or that contains changes to the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance programs are not in order under expedited reconciliation procedures.

Reconciliation acts, together with appropriations acts for the year, often implement agreements between the President and the Congress. They may include other matters, such as laws providing the means for enforcing these agreements, as described below.

Budget Enforcement

The Budget Enforcement Act (BEA), first enacted in 1990 and extended in 1993 and 1997, significantly amended the laws pertaining to the budget process, including the Congressional Budget Act, the Balanced Budget and Emergency Deficit Control Act, and the laws pertaining to the President's budget (see PRINCIPAL BUDGET LAWS, later in the chapter). The BEA constrained legislation enacted through 2002 that would increase spending or decrease spending.

The BEA divided spending into two types—***discretionary spending*** and ***direct spending***. Discretionary spending is controlled through annual appropriations acts. Direct spending, which is more commonly referred to as ***mandatory spending***, is controlled by authorizing laws. However, the BEA required budget authority provided in annual appropriations acts for certain specifically identified programs to be treated as mandatory. This is because the authorizing legislation in these cases entitles beneficiaries to receive payment or otherwise obligates the Government to make payment, even though the payments are funded by a subsequent appropriation. Since the authorizing legislation effectively determines the amount of budget authority required, the BEA classified it as mandatory.

The BEA defined categories of discretionary spending and specified dollar limits known as ***caps*** on the amount of spending in each category. If the amount of budget authority or outlays provided in appropriations acts for a given year exceeded the cap for that category, the BEA required a procedure, called ***sequestration***, for reducing the spending in the category.

The BEA did not cap mandatory spending. Instead, it required that all laws that affected mandatory spending or receipts be enacted on a ***pay-as-you-go*** (PAYGO) basis. That meant that if such a law increased the deficit or reduced a surplus in the budget year or any of the four following years, another law had to be enacted with an offsetting reduction in spending or increase in receipts for each year that was affected. Otherwise, a sequestration would be triggered in the fiscal year in which the deficit would be increased.

Chapter 24, "Budget System and Concepts and Glossary," pages 460–461 in the *Analytical Perspectives* volume of the 2004 Budget, discusses the Budget Enforcement Act in more detail.

The BEA expired at the end of 2002. The Administration proposes to extend the BEA's mechanisms for limiting discretionary spending and to establish mandatory spending controls. The Administration also proposes to establish a new mechanism to measure the Federal Government's long-term unfunded obligations and to prohibit increases in those obligations. These proposals are discussed in more detail in Chapter 15 of this volume, "Budget Reform Proposals."

Budget Execution

Government agencies may not spend or obligate more than 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 are available to cover operations for the entire year.

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

On the other hand, the President may initiate the withholding of funds. Amounts that are withheld 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 Congress that the President has unilaterally withheld funds that were enacted in regular appropriations acts. The notification allows the Congress to overturn the deferral or proposed rescission. The last time the President initiated the withholding of funds was seven years ago.

Budget Calendar

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

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 if the budget resolution has not been agreed to.
June 15	Action to be completed on reconciliation.
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.

COVERAGE OF THE BUDGET

Federal Government and Budget Totals

Table 26–1. TOTALS FOR THE BUDGET AND THE FEDERAL GOVERNMENT

(In billions of dollars)

	2007 actual	Estimate	
		2008	2009
Budget authority			
Unified	2,863	3,013	3,026
On-budget	2,403	2,538	2,528
Off-budget	460	475	498
Receipts:			
Unified	2,568	2,521	2,700
On-budget	1,933	1,859	2,004
Off-budget	635	662	696
Outlays:			
Unified	2,730	2,931	3,107
On-budget	2,277	2,461	2,615
Off-budget	454	470	492
Surplus:			
Unified	–162	–410	–407
On-budget	–343	–602	–611
Off-budget	181	192	204

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 exclude the receipts and outlays for those activities 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 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 Universal Service Fund, the Public Company Accounting Oversight Board, Guaranty Agencies Reserves, the National Railroad Retirement Investment Trust, the United Mine Workers Combined Benefits Fund, the Telecommunications Development Fund, and the transactions of Electric Reliability Organizations (EROs) established pursuant to the Energy Policy Act of 2005.

The budget also reclassifies as governmental the collections and spending by the Affordable Housing Program (AHP) funds created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and includes them in the budget totals. FIRREA requires each of the 12 Federal Home Loan Banks (FHLBs) to contribute at least 10 percent of its previous year's net earnings to an AHP fund to be used to subsidize owner-occupied and rental housing for low-income families and individuals and to provide assistance to certain first-time homebuyers. Since 1990, the FHLBs have contributed $2.7 billion to the AHP funds, of which $1.9 billion has been spent. Although the funds remain in the possession of the FHLBs, the deposit of specific amounts into the AHP funds is compulsory, and the expenditures are to meet specific governmental purposes.

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 FHLBs 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. Because of their public charters, the budget discusses them and reports summary financial data in the budget Appendix and in some detailed tables.

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.

Functional Classification

The functional classification arrays budget authority, outlays, and other budget data according to the major purpose served—such as agriculture, income security, and national defense. There are nineteen major functions, most of which are divided into subfunctions. For example, the Agriculture function comprises the subfunctions Farm Income Stabilization and Agricultural Research and Services. The functional array meets the Congressional Budget Act requirement for a presentation in the budget by national needs and agency missions and programs.

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, 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.

Detailed functional tables, which provide information on government activities by function and subfunction are available on the internet and as a CD ROM in the printed document (Table 27).

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 are available on the internet and as a CD ROM in the printed document (Table 28). 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 appropriation 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 earmarked 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 22 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 benefit, the cost of one program with another, and the cost of alternative methods of reaching a specified goal. 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 for 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 Congress to provide budget authority before an agency can obligate the Government to make a cash outlay. By these means, it causes the total cost of capital investment to be compared up front in a rough and ready way with the total expected future net benefits. Since the budget measures only cost, the benefits with which these costs are compared, based on policy makers' judgment, must be presented in supplementary materials. 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 6 of this volume, "Federal Investment," provides more information on capital investment.)

There have been a number of proposals to change the basis for measuring capital investment in the budget. Many of these would undermine effective consideration and control of costs by spreading the real cost of the project over time and record as a current operating expense the annual depreciation for each year of an asset's life. No depreciation would be recorded until after the asset was put into service. This could be several years after the initial expenditure, in which case the budget would record no expenses at all in the budget year or several years thereafter, even though the Government is legally obligated to buy the asset, and the asset is being constructed or manufactured. Recording the annual depreciation in the budget each year would provide little control over the decision about whether to invest in the first place. Control can only be exercised up front when the Government commits itself to the full sunk cost. Spreading the costs over time would make the cost of a capital asset appear very cheap when decisions were being made that compared it to alternative expenditures. As a result, the Government would have an incentive to purchase capital assets with little regard for need, and also with little regard for the least-cost method of acquisition. Chapter 7, "Federal Investment Spending and Capital Budgeting," pages 157–165 in the *Analytical Perspectives* volume of the 2004 Budget, discusses alternative capital budget and capital expenditure presentations in more detail.

RECEIPTS, OFFSETTING COLLECTIONS, AND OFFSETTING RECEIPTS

In General

The budget records money 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 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 and from gifts of money to the Government. Sometimes they are called 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 26–1, "Totals for the Budget and the Federal Government," which appears earlier in this chapter.) Chapter 17 of this volume, "Federal Receipts," provides more information on 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. As explained below, they are recorded as offsets to spending 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. Otherwise, they are deposited in receipt accounts and called offsetting receipts.

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

- ***Business-like transactions or market-oriented activities with the public***—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. The budget records these amounts as *offsetting collections from non-Federal sources* (for offsetting collections) or as *proprietary receipts* (for offsetting receipts). The amounts are deducted from gross budget authority and outlays, rather than added to receipts. This treatment produces budget totals for receipts, budget authority, and outlays that represent governmental rather than market activity.
- ***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. Intragovernmental offsetting collections and receipts are deducted from gross budget authority and outlays so that the budget totals measure the transactions of the Government with the public.
- ***Offsetting*** governmental transactions—collections from the public that are governmental in nature (e.g., tax receipts, regulatory fees, compulsory user charges, custom duties, license fees) but required by law 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).

A table in Chapter 21 of this volume, "Outlays to the Public, Gross and Net," shows the effect of offsetting collections and receipts on gross outlays for each major Federal agency.

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 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 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 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 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 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 budget authority and outlays for the Government rather than as offsets at the agency level. This special treatment is necessary because the amounts are large and 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" (July 8, 1993). 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 earmarked for 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 above.

See Chapter 18, "User Charges and Other Collections," for more information on the classification of user charges.

BUDGET AUTHORITY AND OTHER BUDGETARY RESOURCES, OBLIGATIONS, AND OUTLAYS

Budget authority, obligations, and outlays are the primary benchmarks and measures of the budget control system. Congress enacts laws that provide agencies with spending authority in the form of budget authority. Before agencies can use the resources, 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. 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 below) 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 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 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 annually enacted appropriations acts. However, new budget authority for more than half of all outlays is made available through permanent appropriations under existing laws and does not require current action by 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 automatically appropriated under existing law from the available balance of their receipts and equals the estimated annual obligations of the funds. For interest on the public debt, budget authority is automatically provided 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. Budget authority provided in authorizing statutes, such as for most trust funds, is available indefinitely. Only another law can extend a limited period of availability (see "Reappropriation" below).

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 year. The sum of such amounts constitutes the account's ***unobligated balance***. Most of this budget authority is earmarked for specific uses and is not available for new programs. A small part may never by obligated or spent, primarily amounts provided for contingencies that do not occur or reserves that never have to be used.

Budget authority that has been obligated but not paid constitutes 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 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 cancels the obligated balances of budget authority that was made available for a definite period five years after the end of the period, and then other resources must be used to pay the obligations.) 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.[2]

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 1st) 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 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.

[2] A separate report, "Balances of Budget Authority," provides additional information on balances. The National Technical Information Service, Department of Commerce makes the report available shortly after the budget is transmitted.

Provisions of law that extend 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 2008 appropriations act extends the availability of unobligated budget authority that expired at the end of 2007, new budget authority would be recorded for 2008.

For purposes of the Budget Enforcement Act (discussed earlier under "Budget Enforcement"), the budget classifies budget authority as ***discretionary*** or ***mandatory***. This classification indicates whether appropriations acts or authorizing legislation control 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 BEA requires the budget authority provided in annual appropriations acts for certain specifically identified programs to be classified as mandatory. This is because the authorizing legislation for these programs entitles beneficiaries to receive payment or otherwise legally obligates the Government to make payment and 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 congressional appropriations action on the request for new budget authority for the year involved. Permanent authority becomes available pursuant to standing provisions of law without further appropriations action by Congress after transmittal of the budget 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," below).

The amount of budget authority recorded in the budget depends on whether the law provides a specific amount or specifies a variable factor that determines the amount. It is considered ***definite*** if the law specifies a dollar amount (which may be an amount not to be exceeded). 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 U.S. 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.

Obligations Incurred

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 below).

Outlays

Outlays are the measure of Government spending. They are payments that liquidate obligations (other than the repayment of debt). The budget records them 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.

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 records outlays nevertheless 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 deductions of 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 measurement of interest varies. 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 this debt consists of inflation-indexed securities, which feature monthly adjustments to principal for inflation and semi-annual 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 account series (special issues). 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 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. However, two trust funds in the Department of Defense, the Military Retirement Trust Fund and the Education Benefits Trust Fund, routinely have relatively large differences between purchase price and par. For these funds, the budget records the holdings of debt at par but records the differences between purchase price and par as adjustments to the assets of the funds that are amortized over the life of the security. The budget records interest as the amortization occurs.

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 below).

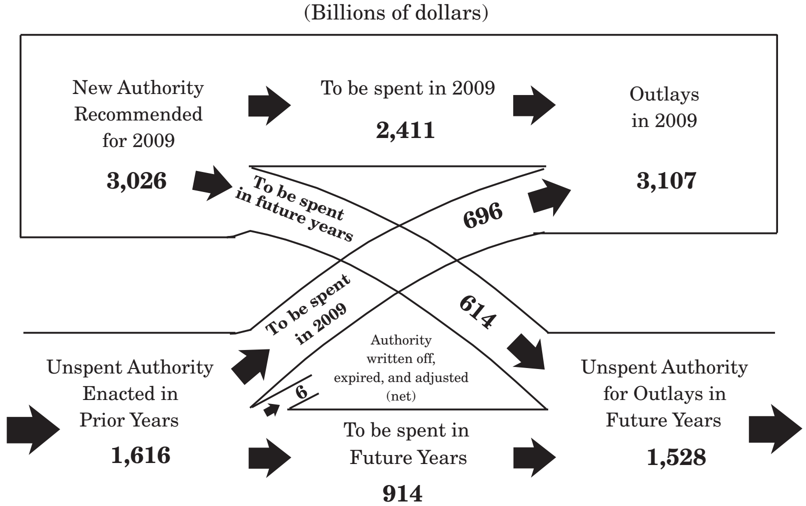
The budget records refunds of receipts that result from overpayments (such as income taxes withheld in excess of tax liabilities) as reductions of receipts, rather than as outlays. However, the budget records payments to taxpayers for refundable tax credits (such as earned income tax credits) that exceed the taxpayer's tax liability as outlays. Refunds of overpayments by the Government are recorded as offsetting collections or offsetting receipts.

Not all of the new budget authority for 2009 will be obligated or spent in 2009. 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 in 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 following chart, $2,411 billion of outlays in 2009 (78 percent of the outlay total) will be made from that year's $3,026 billion total of proposed new budget authority (a first-year spendout rate of 80 percent). Thus, the remaining $696 billion of outlays in 2009 (22 percent of the outlay total) will be made from budget authority enacted in previous years. At the same time, $614 billion of the new budget authority proposed for 2009 (20 percent of the total amount proposed) will not lead to outlays until future years. In general, the total budget authority for a particular year is not directly indicative of that year's outlays since it combines various types of budget authority that have different short-term and long-term implications for budget obligations and outlays.

Chart 26-1. Relationship of Budget Authority to Outlays for 2009

(Billions of dollars)



As described earlier, the budget classifies budget authority and outlays as discretionary or mandatory for the purposes of the BEA. This classification of outlays measures the extent to which actual spending is controlled through the annual appropriations process. Typically, only a little over one-third ($1,042 billion in 2007) of total outlays for a fiscal year are discretionary and the remaining nearly two-thirds ($1,688 billion in 2007) are mandatory spending and net interest. Such a large portion of total spending is nondiscretionary because authorizing legislation determines net interest ($237 billion in 2007) and the spending for a few programs with large amounts of spending each year, such as Social Security ($581 billion in 2007) and Medicare ($371 billion in 2007).

The bulk of mandatory outlays flow from an equal amount of budget authority recorded in the same fiscal year. This is not 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 make 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. The term includes equivalent transactions such as selling a property on credit terms in lieu of receiving cash up front. 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 (FCRA) prescribes the budget treatment for Federal credit programs. Under this treatment, the budget records the net cost to the Government (subsidy cost) when the loans are disbursed, rather than the cash flows year-by-year over the term of the loan, so direct loans and loan guarantees can be compared to each other and to other methods of delivering benefits, such as grants, on an equivalent basis.

The cost of direct loans and loan guarantees, sometimes called the "subsidy cost," is estimated as the present value of expected disbursements over the term of the loan less the present value of expected collections.[3] As for most other kinds of programs, agencies can make loans or guarantee loans only if Congress has appropriated funds sufficient to cover the subsidy costs or provided a limitation on the amount of direct loans or loan guarantees that can be made in annual appropriations acts.

The budget records the estimated long-term cost to the Government arising from direct loans and loan guarantees in ***credit program accounts***. 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 outlays an amount equal to the cost to a non-budgetary ***credit financing account***. The financing accounts record the actual transactions with the public. For a few programs, the estimated cost is negative, because the present value of expected collections exceeds the present value of expected payments from the Government over the term of the loan. In such cases, the financing account makes a payment to the program's negative subsidy receipt account, where it is recorded as an offsetting receipt. In a few cases, the receipts are earmarked in a special fund established for the program and are available for appropriation for the program.

The agencies responsible for credit programs must reestimate the cost of the outstanding direct loans and loan guarantees each year. If the estimated cost increases, the program account makes an additional payment to the financing account. If the estimated cost decreases, the financing account makes a payment 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 an additional amount equal to the increased cost and outlays the amount to the financing account. As with the original cost, agencies may incur modification costs only if Congress has appropriated funds to cover them. A modification may also reduce costs, in which case the financing account makes a payment to the program's receipt account.

Credit financing accounts record all cash flows to and from the Government arising from direct loan obligations and loan guarantee commitments. These cash flows consist mainly of direct loan disbursements and repayments, loan guarantee default payments, fees and interest from the public, the receipt of subsidy cost payments from program accounts, and interest paid to or received from Treasury. Separate financing accounts record the cash flows of direct loans and of loan guarantees for programs that provide both types of credit. The budget totals exclude the transactions of financing accounts because they are not a cost to the Govern-

[3] Present value is a standard financial concept that allows for the time value of money, that is, for the fact that a given sum of money is worth more at present than in the future because interest can be earned on it.

ment. However, since financing accounts record cash flows to and from the Government, 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, which was enacted in 1990, grandfathered 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 a modification subsidy cost or savings, as appropriate, and begins to account for the associated transactions as the FCRA prescribes for direct loan obligations and loan guarantee commitments made in 1992 or later.

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 uses the surplus primarily to reduce debt. The Government’s debt (debt held by the public) is approximately the cumulative amount of borrowing to finance deficits, less repayments from surpluses. Borrowing is not exactly equal to the deficit, and debt repayment is not exactly equal to the surplus, because of the other means of financing such as those discussed under this heading. 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, such as 2003, the net effect of the other means of financing is minor relative to the borrowing or debt repayment; in other years, such as 2002, 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 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 (including the issuance of debt securities to liquidate an obligation and the sale of certificates representing participation in a pool of loans).

In 2007, the Government borrowed $206 billion from the public. This financed the $162 billion deficit in that year as well as the net effect of the other means of financing, such as changes in cash balances and other accounts discussed below. At the end of 2007, the debt held by the public was $5,035 billion.

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 16 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 adds to the Government’s cash balance, but 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 profits resulting 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. They are excluded from the budget because they are not allocations of resources by the Government (see FEDERAL CREDIT above). 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 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.

Exchanges with the International Monetary Fund (IMF)

Under the terms of its participation in the IMF, the U.S. transfers dollars to the IMF and receives Special Drawing Rights (SDR's) in return. The SDR's are interest-bearing monetary assets and may be exchanged for foreign currency at any time. These transfers are like bank deposits and withdrawals, where the government exchanges one type of financial asset (cash) for another (bank deposit), with no change in total financial assets. Following a recommendation of the 1967 President's Commission on Budget Concepts, the budget excludes these transfers from budget outlays or receipts. In contrast, the budget records interest paid by the IMF on U.S. deposits as an offsetting receipt in the general fund of the Treasury. It also records outlays for foreign currency exchanges to the extent there is a realized loss in dollars terms and offsetting receipts to the extent there is a realized gain in dollar terms.

Investments of the National Railroad Retirement Investment Trust

Under longstanding rules, the budget treats investments in non-Federal 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 securities consume cash, fund balances (of funds available for obligation) normally exclude the value of non-Federal securities. However, 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 to be treated as a means of financing in the budget.

Earnings on investments by the National Railroad Retirement Investment Trust in private assets pose special challenges for budget projections. Equities and private bonds 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 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 additional returns that these assets have received in the past are known, it is quite possible that these 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. Following through on this insight, the best way to project the rate of return on the Fund's balances is to use a Treasury rate. This will mean that assets with equal economic value as measured by market prices will be treated equivalently, avoiding the appearance that the budget could benefit if the Government bought private sector assets.

The actual and estimated returns to private 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 the actual year to determine capital gains or losses. As a result, the Fund's end-of-year balance reflects the current market value of resources available to the Government to finance benefits. Earnings for the current and 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 current year or 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 24 of this volume, "Federal Employment and Compensation," 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 compensable workhours in a fiscal year.

BASIS FOR BUDGET FIGURES

Data for the Past Year

The past year column (2007) 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 20 of this volume, "Comparison of Actual to Estimated Totals," for a summary of these differences).

Data for the Current Year

The current year column (2008) includes estimates of transactions and balances based on the amounts of budgetary resources that were available when the budget was transmitted, including amounts appropriated for the year.

Data for the Budget Year

The budget year column (2009) 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 four years beyond the budget year (2010 through 2013) in order to reflect the effect of budget decisions on longer term objectives and plans.

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 actually affect many accounts by relatively small amounts, in order to avoid unnecessary detail in the presentations for the individual accounts.

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 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 as required by current law. The baseline assumes that the future funding for discretionary programs, which generally are funded annually, will equal the most recently enacted appropriation, adjusted for inflation.

The baseline represents the amount of resources, in real terms, that would be used by the Government over the period covered by the budget on the basis of laws currently enacted. (Chapter 25 of this volume, "Current Services Estimates," provides more information on the baseline.)

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 provides a starting point for formulating the President's budget.
- It provides a "policy-neutral" benchmark against which the President's budget and alternative proposals can be compared to assess the magnitude of proposed changes.

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.
- ***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.
- ***Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99–177),*** as amended, which prescribes rules and procedures (including "sequestration") designed to eliminate excess spending.
- ***Budget Enforcement Act of 1990 (Title XIII, Public Law 101–508),*** which significantly amended key laws pertaining to the budget process, including the Congressional Budget Act and the Balanced Budget and Emergency Deficit Control Act. The Budget Enforcement Act of 1997 (Title X, Public Law 105–33) extended the BEA requirements through 2002 and altered some of the requirements. The requirements, generally referred to as BEA requirements (discretionary spending limits, pay-as-you-go, sequestration, etc.), are part of the Balanced Budget and Emergency Deficit Control Act. The BEA expired at the end of 2002.
- ***Federal Credit Reform Act of 1990, as amended (2 USC 661–661f),*** a part of the Budget Enforcement Act of 1990, which amended 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.

GLOSSARY OF BUDGET TERMS

Accrual Method of Measuring Cost means an accounting method that records cost when the liability is incurred. As applied to Federal employee retirement benefits, cost is recorded when the benefits are earned rather than when they are paid at some time in the future.

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.

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

Baseline means an estimate of the receipts, outlays, and deficit or surplus that would result from continuing current law 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 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. The 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 or consolidated totals for Federal activity.

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 the Budget Enforcement Act on the budget authority and outlays provided by discretionary appropriations.

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 either a receipt, an offsetting collection, or an offsetting receipt.

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

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 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. 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.

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

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

Emergency appropriation means an appropriation that the President and the Congress have designated as an emergency requirement. Such spending is not subject to the limits on discretionary spending, if it is discretionary spending, or the pay-as-you-go rules, if it is mandatory.

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.)

Financing account means a non-budgetary account (its 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, there are separate financing accounts for the direct loans and the loan guarantees. (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 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 for receipts not earmarked by law for a specific purpose, the proceeds of general borrowing, and the expenditure of these moneys.

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 Budget Enforcement Act 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.

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—see 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 Congress. They result from business-like transactions or market-oriented activities with the public and 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 and other Government accounts. (Cf. receipts, undistributed offsetting receipts, and offsetting collections.)

On-budget—see budget totals.

Outlay means a payment to liquidate an obligation (other than the repayment of debt principal). 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 means estimates presented in the budget for the years beyond the budget year (usually four) of budget authority, outlays, receipts, and other items (such as debt).

Pay-as-you-go (PAYGO) means the requirements of the Budget Enforcement Act that result in a sequestration if the estimated combined result of legislation affecting mandatory spending or receipts is a net cost for a fiscal year.

Public enterprise fund—see revolving fund.

Receipts mean collections that result from the Government's exercise of its sovereign power to tax or otherwise compel payment and gifts of money to the Government. 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.

Scorekeeping means measuring the budget effects of legislation, generally in terms of budget authority, receipts, and outlays for purposes of the Budget Enforcement Act.

Sequestration means the cancellation of budgetary resources provided by discretionary appropriations or mandatory spending legislation, following various procedures prescribed by the Budget Enforcement Act. A sequestration may occur in response to a discretionary appropriation that causes discretionary spending to exceed the discretionary spending caps set by the Budget Enforcement Act or in response to net costs resulting from the combined result of legislation affecting mandatory spending or receipts (referred to as a "pay-as-you-go" sequestration).

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

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 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 earmarked for 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 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 finances.

Unobligated balance means the cumulative amount of budget authority that is not obligated and that remains available for obligation under law.

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).

Need Additional Copies???

Copies of the Budget and related Office of Management and Budget documents may be purchased at the GPO bookstore listed below. (Paper copies only)

GPO BOOKSTORE

DISTRICT OF COLUMBIA
U.S. Government Printing Office
710 North Capitol Street, NW
Washington, DC 20401
(202) 512–0132
FAX (202) 512–1355

There is a 25% discount on all orders for 100 or more copies of a single title mailed to a single address. No discount is allowed if such orders are mailed to multiple addresses.

Superintendent of Documents Publications Order Form

Order Processing Code: *3515

All prices include regular domestic postage and handling. Telephone orders, please call the Order and Information Desk toll free at (866) 512–1800 or phone (202) 512–1800 to verify prices. Fax orders to—(202) 512–2104. Internet orders: http://bookstore.gpo.gov

Qty	Stock Number	Title	Price Each	Total Price
	041–001–00645–1	Budget of the United States Government, Fiscal Year 2009	$39.00	
	041–001–00646–0	Appendix, Fiscal Year 2009	$73.00	
	041–001–00649–4	Analytical Perspectives, Fiscal Year 2009	$52.00	
	041–001–00647–8	Historical Tables, Fiscal Year 2009	$49.00	
	041–001–00648–6	The Budget on CD–ROM, Fiscal Year 2009	$24.95	
(International customers—please add an additional 40%.)			Total for Publications	

Please Print or Type:

Company or Personal Name

Additional address/attention line

Street address

City, State, ZIP code

Daytime phone—including area code

Mail To: Government Printing Office
P.O. Box 979050
St. Louis, MO 63197-9000

Please Choose Method of Payment:

☐ Check payable to the Superintendent of Documents

☐ SOD Deposit Acct.

☐ Visa, MasterCard, AmEx, Discover/NOVUS

Credit card expiration date

Signature

Thank you for your order!

ISBN 978-0-16-079690-6

90000

9 780160 796906