

## SIGNIFICANT PRESENTATION AND TECHNICAL CHANGES IN THE ADMINISTRATION'S BUDGET FOR FISCAL YEAR 2010

### Budget Document

*A New Era of Responsibility: Renewing America's Promise* is being transmitted on February 26, 2009. This document provides an overview of the President's 2010 Budget proposals. The detailed budget documents containing the traditional budget information will be transmitted in April.

### Appropriations Request for Fiscal Year 2010 and Estimates For Subsequent Years

As shown in Summary Table 7 of the budget document, the Administration requests the appropriation of \$1,262.8 billion in discretionary budget authority for FY 2010. This section discusses technical aspects associated with that figure.

*Disaster costs.*— Summary Tables 3, 4, and 5 of the budget document include an entry labeled “Disaster costs.” This entry represents the statistical probability that there will be major natural or man-made disasters during the remainder of 2009 and in subsequent years – major earthquakes, hurricanes, catastrophic floods, infrastructure collapses, and so on. The figures shown in those tables are not a five- or ten-year historical average, but rather a representation of the small probability of very large costs. The figure is not a “reserve fund,” nor is it a request for discretionary budget authority or congressional legislation of any kind.<sup>1</sup> Consequently, the amounts we show for major disaster costs are not included in the request for \$1,263 billion in discretionary budget authority.<sup>2</sup>

Rather, this entry for disasters exists in the baseline projection of current policy to make budget totals more honest and realistic. Baselines would be more meaningful if they did *not* project forward whatever disaster costs happen to have occurred in the current year. Rather, baselines should replace the projection of actual current-year costs – which might be unusually low or unusually high – with probabilistic estimates of future costs. For the same reason, the Administration believes congressional budget resolutions should incorporate this same entry for disaster costs, producing more honest estimates of likely budget outcomes. (Budget resolutions should not, however, allocate these amounts to any committee because the amounts are not a request for congressional action.) A budget plan that omits these costs is not “calling for less spending;” rather, it is unrealistically pretending that there will be no future disasters.

*Pell Grants.*— The Administration requests that Pell Grants be converted to a mandatory program for 2010 and that benefits be substantially increased. Therefore, the 2010 request of \$1,263 billion in discretionary budget authority includes no funding for Pell Grants. For year-to-

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<sup>1</sup> If a major disaster occurs, federal assistance is likely to be granted in the form of discretionary appropriations, automatic and legislated increases in mandatory programs, and in some cases tax relief. The summary tables show the probabilistic estimate of disaster costs within the outlay totals for convenience.

<sup>2</sup> The request for discretionary appropriations includes amounts that can reasonably be budgeted to cover the ongoing and inevitable costs of wildfires, FEMA preparedness and response, and so on.

year comparability, Summary Tables 3, 4, and 7 also treat existing Pell Grant funding and expenditures for 2008 and 2009 as mandatory. Had the budget not requested the conversion of Pell Grants to a mandatory program, it would have requested an additional \$17.223 billion in discretionary budget authority for 2010.<sup>3</sup>

*Program integrity funding.*— As explained on pages 40-41 of the budget document, the Administration requests discretionary budget authority of \$1,911 million for program integrity purposes – funds that increase agencies’ ability to ensure that entitlement benefits go to the proper beneficiaries in the proper amounts, and that taxes are collected on the same basis. These initiatives have been demonstrated to save more than they cost, and the savings are reflected in the budget totals. This \$1.9 billion is included within the total of \$1,263 billion total shown above and in Summary Table 7 of the budget document. As spelled out in more detail in the discussion of program integrity funding, the Administration requests that these amounts be allocated to the Appropriations Committees in a separate category, available only for the specified purposes.

*Wildfire suppression.*— The Administration requests discretionary budget authority of \$282 million for USDA and \$75 million for DOI to meet the contingent needs of wildfire suppression. As with the program integrity funds, the Administration requests that these amounts be allocated to the Appropriations Committees in a separate category, available only for the specified purposes. Specifically, the Administration requests that these amounts be allocated on condition that they be appropriated as contingent funding in a separate budget account, available for obligation only after exhaustion of the appropriated ten-year average for wildfire suppression and only after a issuance of a presidential finding of need. The budget continues to request the authority to transfer funds from non-fire accounts to maintain ongoing fire suppression, but only if the ten-year average funding and this contingent funding is exhausted.

*Power Marketing Administrations.*— If the Congress chooses to implement a “net zero” policy for the annual expenses of the Power Marketing Administration (PMAs), this budget includes sufficient funding in the discretionary totals to allow for appropriations language that would credit offsetting collections derived from power receipts in the amount of the PMAs’ annual expenses to the PMA appropriation accounts.

*IMF quota subscription.*— The Administration requests that Congress enact an increase in the government’s quota subscription to the International Monetary Fund valued at approximately \$8 billion. Because this is an exchange of financial assets, the Administration does not intend to score this transaction as discretionary budget authority or outlays and it is not included in the total of \$1,263 billion shown above. We note that quota subscriptions have never resulted in any outlays and believe that the prior treatment of such subscriptions as budget authority is incorrect.

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<sup>3</sup> Congressional budget resolutions might consider a contingent, reserve allocation to the Appropriations Committees in case the enactment of the conversion is delayed, or the resolutions could score Pell Grants as mandatory – regardless of the status of the conversion legislation – to the extent the appropriation does not exceed the figure shown above. Because budget authority for the Pell program is subject to reestimate based on parameters such as the maximum grant award, the Budget Committees may prefer to use a CBO reestimate of the \$17.2 billion figure shown above.

*Transportation trust funds.*— The total request for discretionary budget authority of \$1,263 billion shown above and in Summary Table 7 of the budget document includes \$54.3 billion that would, in the past, have been shown as an obligation limitation and not scored as budget authority. For year-to-year comparability, Summary Table 7 also shows transportation figures for 2009 as though the Appropriations Committee has funded those programs through discretionary budget authority.

This \$54.3 billion in funding could be provided as a discretionary appropriation of budget authority or as a limitation on the use of contract authority – an obligation limitation. The Administration proposes to score discretionary budget authority in the amount of any transportation obligations limitations. To prevent double-counting of budget authority within the budget and to be consistent with the recognition that annual transportation levels are ultimately determined by the appropriations process, contract authority subject to obligation limitation (if legislation continues to provide it) would no longer be scored.<sup>4</sup> The changed scorekeeping of contract authority does not alter its legal meaning or effect. If contract authority is provided, it will continue to be allocated to states for planning purposes and states will continue to use it as they have in the past.

These scorekeeping changes will make the budget more transparent and understandable, and is intended to put these programs on a level playing field with all others discretionary programs, including other trust fund programs governed by obligation limitations.<sup>5</sup>

*Aviation fees and user charges.*— Effective with 2011, the Administration proposes to replace certain aviation excise taxes with user charges that would offset discretionary budget authority and outlays. The proposal is intended to simplify aviation financing and more accurately align costs with use. While these effects are largely offsetting, they appear in two places in budget figures for technical reasons; as a revenue reduction shown in Summary Table 6 of the budget document, and as a decrease between 2010 and 2011 in discretionary budget authority for the Transportation Department shown in Summary Table 7 of the budget document. Had estimates associated with new user charges not been included, the amount of discretionary budget authority in Summary Table 7 would have been higher by the following amounts (in millions of dollars):

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2104</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
9,634	10,131	10,639	11,013	11,411	11,824	12,254	12,701	13,165

## **Reserve Funds for Health and Climate Change**

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<sup>4</sup> The Administration requests that the Congress use the scoring for transportation programs discussed above. If it does not, and if transportation trust fund programs continue to receive contract authority, the amount of discretionary budget authority allocated to the Appropriations Committees should be \$1,208.4 billion to be consistent with Administration funding policies.

<sup>5</sup> Because one purpose of this proposal is to level the playing field, the Administration does not support an extension of the minimum funding level contained in House rules.

The Budget sets aside a reserve fund of more than \$630 billion over 10 years that will be dedicated towards financing reforms to our health care system. A description of this proposal begins on page 27 of the budget document.

The Budget also reflects the impact of the comprehensive energy and climate change plan that the Administration is developing. This plan would be implemented through a cap-and-trade system, with a portion of the revenues dedicated to funding vital investments in a clean energy future. Remaining revenue would be returned to affected communities, businesses, and families. A description of this proposal begins on page 21 of the budget document.

### **Improved Definition of Baseline**

For years the baseline used by Congress has followed the definition contained in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, often referred to as the BEA baseline. However, in a number of ways the BEA baseline badly misstates the costs of continuing current policy. The Administration's Budget includes adjustments to the BEA baseline to better represent current policy, and recommends that Congress, the Congressional Budget Office, and the public use such a baseline in their own analyses as well. The deficit impacts of the adjustments to the BEA baseline are summarized in Summary Table 5 of the budget document; the adjustments are described below.

*Adjustments to reflect current policies.*— In recent years, Congress has repeatedly extended provisions of law that have a large deficit impact or signaled its intention that a provision be extended when it enacted it for a limited number of years. The Administration's baseline assumes extension of these policies to represent the policies previously in place: continuing the 2001 and 2003 tax cuts, indexing the 2008 parameters of the Alternative Minimum Tax, accounting for additional expected Medicare physician payments, and continuing Transitional Medical Assistance and the Qualified Individuals programs. Also, the baseline growth rates for pay were modified to remove an erroneous overstatement of the cost of the annual pay raise for Federal employees and to remove the special adjustment for caseload growth for certain social insurance programs.

*Adjustments to reflect pending legislation.*— When the Administration developed its proposals for the 2010 Budget, legislative action on several bills had not been completed for 2009. Several adjustments were made to the baseline to account for pending legislation.

- Regular appropriations bills. Under the baseline definitions contained in the Budget Enforcement Act, the current-year levels of funding for discretionary programs would reflect enacted full-year appropriations. As of February 25, full-year appropriations have been enacted for only three regular appropriations bills: the Department of Defense Appropriations Act, 2009; the Department of Homeland Security Appropriations Act, 2009; and the Military Construction and Veterans Affairs and Related Appropriations Act, 2009. For programs that are funded in the remaining appropriations bills, the BEA baseline assumes the annualized level of funding contained in the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009. Our current policy baseline includes adjustments at the agency level to reflect estimates of the expected

levels for the remaining appropriations for 2009, assuming they conform with the total level for appropriations in the Concurrent Resolution on the Budget for Fiscal Year 2009, with an estimate of changes to mandatory programs being rebased as mandatory spending. Adjustments are also made to include the costs of the just-enacted American Recovery and Reinvestment Act, but that legislation is treated as a one-time cost rather than being projected into future years.

- Overseas, Disaster, and Other “Emergency” Costs. The BEA baseline can be subject to huge swings as a result of funding enacted as an emergency or supplemental requirement. At times, the BEA baseline extends large one-time emergency appropriations out for the next ten years; at other times it extends very little. The current policy baseline includes adjustments to account for these swings.
  - Overseas Contingency Operations. Enacted 2009 supplementals are extended and inflated in the BEA baseline. However, since the enacted supplementals fund only a part of the 2009 costs for overseas contingency operations in Iraq and Afghanistan and other recurring international activities, the BEA baseline significantly understates those costs. To provide a better approximation of current services for these costs, the current policy baseline removes the enacted 2009 funding and inserts the 2008 full-year amounts, adjusted for inflation.
  - Non-recurring emergency costs. The current policy baseline removes from 2010 and beyond those items designated as “emergency” requirements that are clearly one-time in nature. These appropriations include \$7.5 billion for the Advanced Technology Vehicles Loan Manufacturing Loan Program, \$5.8 billion for rebuilding levees in New Orleans, and \$0.2 billion for the Filipino Veterans Equity Compensation Fund. There is no obvious reason that those particular one-time costs should be continued in a current-policy baseline. The Administration recognizes, however, that the policy baseline could be understated by including *no* adjustment for one-time expenditures, which is why a final adjustment for disaster costs (described below) is included.
  - Disaster costs. As described at the beginning of this enclosure, the baseline includes an adjustment to represent the statistical probability of future disasters. These costs are likewise included in the Budget totals.

*Shift Pell grants from discretionary to mandatory.*— As described previously for the FY 2010 policy estimates, the baseline reflects the reclassification of past, current, and projected Pell Grants from discretionary to mandatory. The mandatory baseline equals the amounts that would be shown as discretionary using the BEA rules for projecting the cost of discretionary programs. The policy estimates reflect the baseline costs plus the expansion in benefits that is proposed by the Administration. Classifying Pell spending consistently in all years in the baseline and the policy estimates makes it easier to understand the budget impact of the policy proposal. If the budget had instead shown Pell grants as discretionary through 2009 and as mandatory in subsequent years, it would have been harder to understand the proposal for Pell grants and harder to interpret the total level of year-by-year funding for other nondefense

discretionary programs.

*TARP transactions.*— The President's Budget reflects costs for the Troubled Assets Relief Program (TARP) on a net present value basis, with adjustments to the discount rate for market risk, consistent with the 2008 Emergency Economic Stabilization Act (EESA). Net present value budgeting for TARP equity purchases captures the lifetime expected net cost of the program up front, rather than reflecting the cash impact in each year. Full cash flows to and from the Government still will be reported as a means of financing in the Budget and Monthly Treasury Statement. Note that the budget would have shown a much higher cost in 2009 and large receipts in subsequent years – producing a steeper trajectory of falling deficits – if TARP had been shown on a cash basis. Such a cash portrayal would therefore have made it appear that the Administration was even more successful at bringing down deficits from year to year. But cash scorekeeping, though perhaps advantageous in this case for cosmetic reasons, does not do as good a job as present-value scorekeeping in reflecting the expected costs in the year such legislation is enacted.

### **Debt Held by the Public Net of Financial Assets**

Summary Tables 1 and 9 of the budget document introduce the concept of debt held by the public net of financial assets. Borrowing from the public is normally a good approximation of the Federal demand on credit markets. However, it provides an incomplete picture of the financial condition of the Government. Some transactions that increase the Federal debt also increase the financial assets held by the Government. For example, when the Government loans money to a private firm or individual, the Government acquires a financial asset that provides a stream of future payments of principal and interest. At the time the loan is made, debt held by the public reflects only Treasury's borrowing to finance the loan, and does not reflect the value of the loan asset acquired by the Government. The new concept of debt held by the public net of financial assets provides a fuller measure of the Government's net financial position by including the value of loans and other financial assets. This measure is especially useful during times, like the present, when the Government is borrowing large sums of money to address difficulties faced by our Nation's economy and financial markets. As shown in Summary Table 9, a large share of the Government's current and recent borrowing has financed the purchase of financial assets, so that the increase in debt held by the public net of financial assets is much smaller than the overall increase in debt held by the public.

### **Pay-as-you-go for Receipts and Mandatory Spending**

The Administration supports a statutory pay-as-you-go enforcement mechanism for legislation that would alter receipts or mandatory spending. Such a statute would complement and reinforce existing rules of the House and Senate that implement a pay-as-you-go approach to legislation. The Administration will work with Congress to determine the appropriate base against which receipts and mandatory legislation would be measured.

### **Functional Classification**

There are no subfunctional reclassifications contained in this document. The several

classification changes agreed to in consultation with Congressional committee staff and CBO staff will be implemented with the traditional full budget transmittal later this spring.