BUDGET CONCEPTS AND BUDGET PROCESS

12. BUDGET CONCEPTS

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

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

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

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

THE BUDGET PROCESS

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

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

Formulation of the President's Budget

The Budget of the United States Government consists of several volumes that set forth the President's fiscal policy goals and priorities for the allocation of resources by the Government. The primary focus of the Budget is on the budget year—the next fiscal year for which the Congress needs to make appropriations, in this case 2013. (Fiscal year 2013 will begin on October 1, 2012, and end on September 30, 2013.) The Budget also covers the nine years following the budget year in order to reflect the effect of budget decisions over the longer term. It includes the funding levels provided for the current year, in this case 2012, which allows the reader to compare the President's Budget proposals with the most recently enacted levels. The Budget also includes data on the most recently completed fiscal year, in this case 2011, so that the reader can compare budget estimates to actual accounting data.

In a normal year, the President begins the process of formulating the budget by establishing general budget and fiscal policy guidelines, usually by the spring of each year, at least nine months before the President transmits the budget to the Congress and at least 18 months before the fiscal year begins. (See the "Budget Calendar" later in this chapter.) Based on these guidelines, the Office of Management and Budget (OMB) works with the Federal agencies to establish specific policy directions and planning levels, both for the budget year and for at least the following four years, and in this case, the following nine years, to guide the preparation of their budget requests. Since the Budget Control Act of 2011 (BCA) has set statutory limits on discretionary budget authority, as discussed below, the President's budget proposes funding levels for discretionary programs consistent with those limits.

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

In early fall, agencies submit their budget requests to OMB, where analysts review them and identify issues that OMB officials need to discuss with the agencies. OMB and the agencies resolve many issues themselves.

Others require the involvement of White House policy officials and the President. This decision-making process is usually completed by late December. At that time, the final stage of developing detailed budget data and the preparation of the budget documents begins.

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

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

The law governing the President's budget requires its transmittal to the Congress on or after the first Monday in January but not later than the first Monday in February of each year for the following fiscal year, which begins on October 1. The budget is routinely sent to the Congress on the first Monday in February, giving the Congress eight months to act on the budget before the fiscal year begins.

Congressional Action[1]

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

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

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

The Congress begins its work on its budget resolution shortly after it receives the President's budget. Under the procedures established by the Congressional Budget Act of 1974, the Congress decides on budget targets before commencing action on individual appropriations. The Act requires each standing committee of the House and Senate to recommend budget levels and report legislative plans concerning matters within the committee's jurisdiction to the Budget Committee in each body. The

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

BUDGET CALENDAR

The following timetable highlights the scheduled dates for significant budget events during a normal budget 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 even if the budget resolution has not been agreed to.
June 10	House Appropriations Committee to report the last of its annual appropriations bills.
June 15	Action to be completed on "reconciliation bill" by the Congress.
June 30	Action on appropriations to be completed by House
July 15	President transmits Mid-Session Review of the Budget
October 1	Fiscal year begins

House and Senate Budget Committees then each design and report, and each body then considers, a concurrent resolution on the budget—a congressional budget plan, or budget resolution. The budget resolution sets targets for total receipts and for budget authority and outlays, both in total and by functional category (see "Functional Classification" later in this chapter). It also sets targets for the budget deficit or surplus and for Federal debt subject to statutory limit.

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

In the report on the budget resolution, the Budget Committees allocate the total on-budget budget authority and outlays set forth in the resolution to the Appropriations Committees and the other committees that have jurisdiction over spending. (See "Coverage of the Budget," later in this chapter, for more information on on-budget and off-budget amounts.) Now that the BCA has set statutory limits on discretionary budget authority, as discussed below, the budget resolution allocation to the Appropriations Committees will equal those limits. Once the Congress resolves differences between the House and Senate and agrees on a budget resolution, the Appropriations Committees are required to divide their allocations of budget authority and outlays among their subcommittees. The Congress is not allowed to consider appropriations bills (so-called "discretionary" spending) that would breach or further breach an Appropriations subcommittee's target. The Congress is not allowed to consider legislation that would cause the overall spending target for any such committee to be breached or further breached. The Budget Committees' reports may discuss assumptions about the level of funding for major programs. While these assumptions do not bind the other committees and subcommittees, they may influence their decisions.

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

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

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

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

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

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

Almost all taxes and most other receipts also result from authorizing laws. Article I, Section 7, of the Constitution provides that all bills for raising revenue shall originate in the House of Representatives. In the House, the Ways

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

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

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

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

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

Budget Enforcement

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

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

The BBEDCA, as amended by the BCA, specifies spending limits ("caps") on discretionary budget authority for 2012 through 2021. Title I of the BCA establishes a framework that places different limits on specific categories of spending in the first two years (2012 and 2013) as compared to a single spending limit in the remaining years (2014 through 2021). For 2012 and 2013, the discretionary spending limits in Title I are divided into two separate categories: the security category and the nonsecurity category. The security category includes discretionary budget authority for the Departments of Defense, Homeland Security, and Veterans Affairs, the National Nuclear Security Administration, the Intelligence Community Management account, and all budget accounts in the international affairs budget function (budget function 150). The nonsecurity category includes all discretionary budget authority not included in the security category. For 2014 through 2021, Title I has a single spending category that covers all discretionary budget authority, with a specified spending limit for each of those years. The law also requires that the categories be revised if the Joint Select Committee process under Title IV

of the BCA did not result in enactment of legislation that reduces the deficit by at least $1.2 trillion. A discussion of these revised categories can be found below.

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

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

The preview report discusses the status of discretionary sequestration, based on current law. This report also explains the adjustments that are required by law to the discretionary caps and publishes the revised caps. (Chapter 14 of this volume, "Budget Process" includes the Preview Report.) The update and final reports revise the preview report estimates to reflect the effects of newly enacted discretionary laws. In addition, the update report must contain a preview estimate of the adjustment for disaster funding for the upcoming fiscal year.

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

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

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

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

After a congressional session ends, OMB issues an annual PAYGO report and determines whether a violation of the PAYGO requirement has occurred. If there are more costs than savings in the budget year column of either scorecard, the President is required to issue a sequestration order implementing across-the-board cuts to nonexempt mandatory programs by an amount sufficient to offset the net costs on the PAYGO scorecard.

The Statutory Pay-As-You-Go Act of 2010 exempted the costs of certain legislation from the PAYGO scorecard, as long as that legislation was enacted by December 31, 2011. Extension of the middle-class provisions of the 2001 and 2003 tax cuts, as amended in 2009, did not have to be offset. In addition, extension through 2014 of relief from the scheduled deep reduction in Medicare physician reimbursement rates was also exempt from PAYGO, but

only up to the reimbursement rates in effect in 2009. In four bills between June 2010 and December of 2011, the Congress enacted temporary relief to the Sustainable Growth Rate (SGR) provision of Medicare at payment rates 2.2 percent above those defined in the Statutory Pay-As-You-Go Act of 2010, so those incremental costs appear on the PAYGO scorecards. Congress chose to offset the entire costs of the relief, even though such offsets were not required. Because the December 31, 2011 deadline for enacting legislation extending these policies has now passed, current law provides for any further extensions to be subject to the PAYGO rules.

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

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

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

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

The House, in contrast, imposes points of order on legislation increasing mandatory spending in net, whether or not those costs are offset by revenue increases, but the House rule does not constrain the size of tax cuts or require them to be offset. On January 5, 2011, the House agreed to a special order that permits the Budget Committee Chairman to certify that the costs of certain types of legislation are zero when introducing pay-as-you-go estimates into the Congressional Record:

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

The BCA established a Joint Select Committee on Deficit Reduction and instructed it to recommend legislative changes that would reduce the deficit by at least $1.5 trillion over 2012 to 2021. The BCA further provided that if a joint committee bill reducing the deficit by at least $1.2 trillion was not signed into law by January 15, 2012, certain automatic spending reductions would take effect. Since the Joint Select Committee process under Title IV of the BCA did not result in enactment of legislation that reduces the deficit, the law put into place a different framework for the discretionary spending limits for 2013 through 2021 and requires automatic reductions to discretionary budget authority and direct spending to occur beginning in January 2013, absent further legislative action.

Under this new framework, pursuant to Title III, limits are imposed on defense and nondefense categories of discretionary spending for 2013 through 2021. (The BCA refers to spending within the defense function as the "revised security category" and spending in the nondefense functions as the "the revised nonsecurity category.") Because the 2013 President's Budget proposes savings that would exceed the target set for the Joint Committee, it proposes to replace the automatic reductions with these alternative savings and restore the original framework for discretionary spending limits established in Title I.

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

- The statutory discretionary spending limits for 2013 through 2021 are revised by redefining the security and nonsecurity categories. The total budget authority cap for each year remains unchanged. The revised security category includes only discretionary budget authority in the defense budget function; the revised nonsecurity category includes discretionary budget authority other than in the defense budget function. The revised security and nonsecurity categories are extended through 2021.
- The $1.2 trillion savings target is to be reduced by 18 percent to account for debt service. The remainder is spread in equal amounts across the nine years, 2013 through 2021.
- The total amount of spending reduction required for each year is divided equally between the defense and nondefense functions.
- The annual amounts of spending reductions required each year for each type of spending is to be divided proportionally between discretionary and direct spending programs, using the discretionary BA limit and the most recent baseline estimate of non-exempt mandatory outlays as the base.
- The reduction each year for mandatory programs is to be achieved by a sequestration of non-exempt mandatory spending. Sequestration for 2013 is to begin on January 2, 2013, while the sequestration for subsequent years is to begin on the first day (Oc-

tober 1) of those fiscal years.

- The reduction for discretionary programs for 2013 is to be achieved by a sequestration of non-exempt discretionary spending, effective January 2, 2013. For subsequent fiscal years, the reduction is to be taken by reducing the discretionary cap each year.

Budget Execution

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

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

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

COVERAGE OF THE BUDGET

Federal Government and Budget Totals

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

It is not always obvious whether a transaction or activity should be included in the budget; the dividing line between the Government and the private sector is sometimes murky. 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, the Securities Investor Protection Corporation, Guaranty Agencies Reserves, the National Railroad Retirement Investment Trust, the United Mine Workers Combined Benefits Fund, the Telecommunications Development Fund, the Federal Financial Institutions Examination Council, Electric Reliability Organizations (EROs) established pursuant to the Energy Policy Act of 2005, and the Corporation for Travel Promotion

The budget also classifies as governmental the collections and spending by the Affordable Housing Program

Table 12–1. TOTALS FOR THE BUDGET AND THE FEDERAL GOVERNMENT
(In billions of dollars)

	2011 Actual	Estimate	
		2012	2013
Budget authority			
Unified	3,510	3,746	3,667
On-budget	3,010	3,232	3,024
Off-budget	500	515	643
Receipts:			
Unified	2,303	2,469	2,902
On-budget	1,738	1,896	2,225
Off-budget	566	572	677
Outlays:			
Unified	3,603	3,796	3,803
On-budget	3,104	3,290	3,169
Off-budget	499	505	634
Surplus:			
Unified	–1,300	–1,327	–901
On-budget	–1,367	–1,394	–945
Off-budget	67	67	43

(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. Since 1990, the FHLBs have contributed $3.9 billion to the AHP funds, of which $3.2 billion has been spent. The unspent funds represent 2011 contributions that will be committed in 2012 and the undisbursed portion of funds already committed to specific projects. 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. Nevertheless, because of their public charters, the budget discusses them and reports summary financial data in the budget *Appendix* and in some detailed tables.

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

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

Chapter 13 of this volume, "Coverage of the Budget," provides more information on this subject.

Functional Classification

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

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

- A function encompasses activities with similar purposes, emphasizing what the Federal Government seeks to accomplish rather than the means of accomplishment, the objects purchased, the clientele or geographic area served (except in the cases of functions 570 for Medicare, 650 for Social Security, and 700 for Veterans Benefits and Services), or the Federal agency conducting the activity (except in the case of subfunction 051 in the National Defense function, which is used only for defense activities under the Department of Defense—Military).
- A function must be of continuing national importance, and the amounts attributable to it must be significant.
- Each basic unit being classified (generally the appropriation or fund account) usually is classified according to its primary purpose and assigned to only one subfunction. However, some large accounts that serve more than one major purpose are subdivided into two or more functions or subfunctions.

Detailed functional tables, which provide information on Government activities by function and subfunction, are available on the Internet and as a CD-ROM included with the printed version of this document.

Agencies, Accounts, Programs, Projects, and Activities

Various summary tables in the *Analytical Perspectives* volume of the Budget provide information on budget authority, outlays, and offsetting collections and receipts arrayed by Federal agency. A table that lists budget authority and outlays by budget account within each agency and the totals for each agency of budget authority, outlays, and receipts that offset the agency spending totals is available on the Internet and as a CD-ROM included with the printed version of this document. The *Appendix* provides budgetary, financial, and descriptive information about programs, projects, and activities by account within each agency.

Types of Funds

Agency activities are financed through Federal funds and trust funds.

Federal funds comprise several types of funds. Receipt accounts of the ***general fund***, which is the greater part of the budget, record receipts not earmarked by law for a specific purpose, such as income tax receipts. The general fund also includes the proceeds of general borrowing. General fund appropriations accounts record general fund expenditures. General fund appropriations draw from general fund receipts and borrowing collectively and, therefore, are not specifically linked to receipt accounts. ***Special funds*** consist of receipt accounts for Federal fund receipts that laws have designated for specific purposes and the associated appropriation accounts for the expenditure of those receipts. ***Public enterprise funds*** are revolving funds used for programs authorized by law to conduct a cycle of business-type operations, primarily with the public, in which outlays generate collections.

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

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

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

However, in some instances, the Government does act as a true trustee of assets that are owned or held for the benefit of others. For example, it maintains accounts on behalf of individual Federal employees in the Thrift Savings Fund, investing them as directed by the individual employee. The Government accounts for such funds in ***deposit funds***, which are not included in the budget. (Chapter 28 of this volume, "Trust Funds and Federal Funds," provides more information on this subject.)

Budgeting for Full Costs

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

The budget includes all types of spending, including both current operating expenditures and capital investment, and to the extent possible, both are measured on the basis of full cost. Questions are often raised about the measure of capital investment. The present budget provides policymakers the necessary information regarding investment spending. It records investment on a cash basis, and it requires the Congress to provide budget authority before an agency can obligate the Government to make a cash outlay. 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 21 of this volume, "Federal Investment," provides more information on capital investment.)

RECEIPTS, OFFSETTING COLLECTIONS, AND OFFSETTING RECEIPTS

In General

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

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

Governmental Receipts

Governmental receipts are collections that result from the Government's exercise of its sovereign power to tax or otherwise compel payment. Sometimes they are called

receipts, 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 12–1, "Totals for the Budget and the Federal Government," which appears earlier in this chapter.) Chapter 15 of this volume, "Governmental 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 outlays so that the budget totals represent governmental rather than market activity and reflect the Government's net transactions with the public. They are recorded in one of two ways, based on interpretation of laws and longstanding budget concepts and practice. They are offsetting collections when the collections are authorized by law to be credited to expenditure accounts and are generally available for expenditure without further legislation. Otherwise, they are deposited in receipt accounts and called offsetting receipts.

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

- ***Business-like transactions or market-oriented activities with the public***—these include voluntary collections from the public in exchange for goods or services, such as the proceeds from the sale of postage stamps, the fees charged for admittance to recreation areas, and the proceeds from the sale of Government-owned land; and reimbursements for damages, such as recoveries by the Hazardous Substance Superfund. The budget records these amounts as *offsetting collections from non-Federal sources* (for offsetting collections) or as *proprietary receipts* (for offsetting receipts). The amounts are deducted from gross budget authority and outlays, rather than added to governmental receipts. This treatment produces budget totals for budget authority, outlays, and governmental receipts 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.
- ***Voluntary gifts and donations***—gifts and donations of money to the Government, which are treated as offsets to budget authority and outlays.
- ***Offsetting governmental transactions***—collections from the public that are governmental in nature (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).

Offsetting Collections

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

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

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

Offsetting Receipts

Collections that are offset against gross outlays but are not authorized to be credited to expenditure accounts are credited to receipt accounts and are called offsetting receipts. Offsetting receipts are deducted from budget authority and outlays in arriving at total 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 so large they would distort measures of the agency's activities if they were attributed to the agency.

User Charges

User charges are fees assessed on individuals or organizations for the provision of Government services and for the sale or use of Government goods or resources. The payers of the user charge must be limited in the authorizing legislation to those receiving special benefits from, or subject to regulation by, the program or activity beyond the benefits received by the general public or broad segments of the public (such as those who pay income taxes or customs duties). Policy regarding user charges is established in OMB Circular A–25, "User Charges" (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 dedicated to the activity they finance and may be credited to the general fund of the Treasury.

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

See Chapter 16, "Offsetting Collections and Offsetting Receipts," for more information on the classification of user charges.

BUDGET AUTHORITY, OBLIGATIONS, AND OUTLAYS

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

Budget Authority and Other Budgetary Resources

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

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

In deciding the amount of budget authority to request for a program, project, or activity, agency officials estimate the total amount of obligations they will need to incur to achieve desired goals and subtract the unobligated balances available for these purposes. The amount of budget authority requested is influenced by the nature of the programs, projects, or activities being financed. For current operating expenditures, the amount requested usually covers the needs for the fiscal year. For major procurement programs and construction projects, agencies generally must request sufficient budget authority in the

first year to fully fund an economically useful segment of a procurement or project, even though it may be obligated over several years. This full funding policy is intended to ensure that the decision-makers take into account all costs and benefits fully at the time decisions are made to provide resources. It also avoids sinking money into a procurement or project without being certain if or when future funding will be available to complete the procurement or project.

Budget authority takes several forms:

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

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

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

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

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

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

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

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

The Congress usually makes budget authority available on the first day of the fiscal year for which the appropriations act is passed. Occasionally, the appropriations

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

Provisions of law that extend into a new fiscal year the availability of unobligated amounts that have expired or would otherwise expire are called reappropriations. Reappropriations of expired balances that are newly available for obligation in the current or budget year count as new budget authority in the fiscal year in which the balances become newly available. For example, if a 2012 appropriations act extends the availability of unobligated budget authority that expired at the end of 2011, new budget authority would be recorded for 2012. This scorekeeping is used because a reappropriation has exactly the same effect as allowing the earlier appropriation to expire at the end of 2011 and enacting a new appropriation for 2012.

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

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

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

Obligations

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

Outlays

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

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

trust funds with offsetting receipts are not stated net of the offsetting receipts; like other offsetting receipts, these offset the agency, function, and subfunction totals but do not offset account-level outlays.

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

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

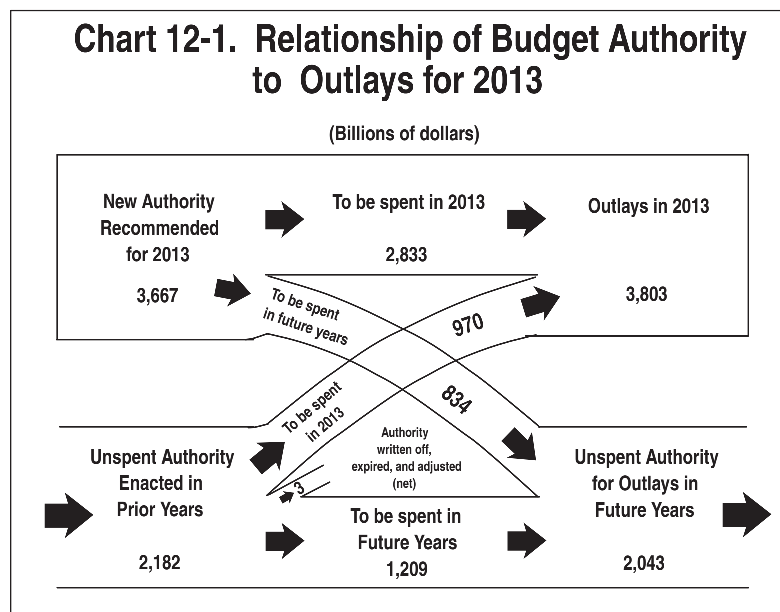
Most Treasury debt securities held by trust funds and other Government accounts are in the Government account series. The budget normally states the interest on these securities on a cash basis. When a Government account is invested in Federal debt securities, the purchase price is usually close or identical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

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

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

Not all of the new budget authority for 2013 will be obligated or spent in 2013. Outlays during a fiscal year may liquidate obligations incurred in the same year or in prior years. Obligations, in turn, may be incurred against budget authority provided in the same year or against unobligated balances of budget authority provided in prior years. Outlays, therefore, flow in part from budget authority provided for the year in which the money is spent and in part from budget authority provided for prior years. The ratio of a given year's outlays resulting from budget authority enacted in that or a prior year to the original amount of that budget authority is referred to as the spendout rate for that year.

As shown in the accompanying chart, $2,833 billion of outlays in 2013 (74 percent of the outlay total) will be made from that year's $3,667 billion total of proposed new budget authority (a first-year spendout rate of 77 percent). Thus, the remaining $970 billion of outlays in



2013 (26 percent of the outlay total) will be made from budget authority enacted in previous years. At the same time, $834 billion of the new budget authority proposed for 2013 (23 percent of the total amount proposed) will not lead to outlays until future years.

As described earlier, the budget classifies budget authority and outlays as discretionary or mandatory. This classification of outlays measures the extent to which actual spending is controlled through the annual appropriations process. About 36 percent of total outlays in 2011 ($1,300 billion) are discretionary and the remaining 64 percent ($2,303 billion in 2011) are mandatory spending and net interest. Such a large portion of total spending is mandatory because authorizing rather than appropriations legislation determines net interest ($230 billion in 2011) and the spending for a few programs with large amounts of spending each year, such as Social Security ($725 billion in 2011) and Medicare ($480 billion in 2011).

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

FEDERAL CREDIT

Some Government programs 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 economically equivalent transactions such as selling an asset 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 of 1990, as amended (FCRA), prescribes the budgetary treatment for Federal credit programs. Under this treatment, the budget records obligations and outlays up front, for the net cost to the Government (subsidy cost), rather than recording the cash flows year by year over the term of the loan. Under FCRA treatment, the costs and benefits of direct loans and loan guarantees can be compared on an equivalent basis to each other, and to other methods of delivering benefits, such as grants.

The cost of direct loans and loan guarantees, sometimes called the “subsidy cost,” is estimated as the present value of expected payments to the public over the term of the loan, less the present value of expected collections, discounted using appropriate Treasury interest rates.[2] (Some advocate for fair value treatment of loans and guarantees, which would discount cash flows using market rates. See Chapter 23 of this volume, “Credit and Insurance,” for a fuller discussion of this topic.) Similar to most other kinds of programs, agencies can make loans or guarantee loans only if the Congress has appropriated funds sufficient to cover the subsidy costs, or provided a limitation in an appropriations act on the amount of direct loans or loan guarantees that can be made.

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

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

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

Credit financing accounts record all cash flows arising from direct loan obligations and loan guarantee commitments. Such cashflows include all cashflows to and from the public, including direct loan disbursements and repayments, loan guarantee default payments, fees, and

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

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

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

Under the authority provided in various acts, certain activities are reflected pursuant to FCRA. For example, the Emergency Economic Stabilization Act of 2008 (EESA) created the Troubled Asset Relief Program (TARP) under the Department of the Treasury, and authorized Treasury to purchase or guarantee troubled assets until October 3, 2010. Under the TARP, Treasury has purchased equity interests in financial institutions. Section 123 of the EESA provides the Administration the authority to treat these equity investments on a FCRA-basis, recording outlays for the subsidy as is done for direct loans and loan guarantees. The budget reflects the cost to the Government of TARP direct loans, loan guarantees, and equity investments consistent with the FCRA and Section 123 of EESA, which requires an adjustment to the discount rate otherwise prescribed by FCRA to account for market risk for these transactions. Increases to the International Monetary Fund Quota and New Arrangement to Borrow enacted in the Supplemental Appropriations Act of 2009 are treated on a FCRA basis with a risk adjustment to the discount rate, under the authority provided in that Act. In addition, Treasury equity purchases under the Small Business Lending Fund are treated pursuant to the FCRA, as provided by the Small Business Jobs Act of 2010.

BUDGET DEFICIT OR SURPLUS AND MEANS OF FINANCING

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

Borrowing is not exactly equal to the deficit, and debt repayment is not exactly equal to the surplus, because of the other means of financing such as those discussed in this section. The factors included in the other means of financing can either increase or decrease the Government's borrowing needs (or decrease or increase its ability to repay debt). For example, the change in the Treasury operating cash balance is a factor included in other means of financing. Holding receipts and outlays constant, increases in the cash balance increase the Government's need to borrow or reduce the Government's ability to repay debt, and decreases in the cash balance decrease the need to borrow or increase the ability to repay debt. In some years, the net effect of the other means of financing is minor relative to the borrowing or debt repayment; in other years, such as 2009, the net effect may be significant, as explained later in this chapter.

Borrowing and Debt Repayment

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

In 2011, the Government borrowed $1,109 billion from the public, bringing debt held by the public to $10,128 billion. This borrowing financed the $1,299 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.

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 6 of this volume, "Federal Borrowing and Debt," for a fuller discussion of this topic.)

Exercise of Monetary Power

Seigniorage is the profit from coining money. It is the difference between the value of coins as money and their cost of production. Seigniorage reduces the Government's need to borrow. Unlike the payment of taxes or other re-

ceipts, it does not involve a transfer of financial assets from the public. Instead, it arises from the exercise of the Government's power to create money and the public's desire to hold financial assets in the form of coins. Therefore, the budget excludes seigniorage from receipts and treats it as a means of financing other than borrowing from the public. The budget also treats proceeds from the sale of gold as a means of financing, since the value of gold is determined by its value as a monetary asset rather than as a commodity.

Credit Financing Accounts

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

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

Deposit Fund Account Balances

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

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

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

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

In 2009, Congress enacted an increase in the Supplemental Appropriations Act of 2009 (Public Law 111–2, Title XIV, International Monetary Programs) and directed that the increase be scored under the requirements of the Federal Credit Reform Act of 1990, with an adjustment to the discount rate for market risk. The 2013 Budget reflects obligations and outlays for the quota increase provided by the Supplemental Appropriations Act of 2009 under the terms of that Act. The cash transactions between the U.S. Treasury and the IMF are treated as a means of financing (see "Credit Financing Accounts" earlier in this chapter), which do not affect the deficit.

In contrast, for increases to the U.S. quota subscriptions made prior to the Supplemental Appropriations Act of 2009, the 2013 Budget records interest received from the IMF on U.S. deposits as an offsetting receipt in the general fund of the Treasury. Treasury records outlays in the prior year for financial transactions with the IMF to the extent there is an unrealized loss in dollar terms and offsetting receipts to the extent there is an unrealized gain in dollar terms on the value of the interest-bearing portion of the U.S. quota actually held at the IMF in SDRs. Changes in the value of the portion of the U.S. quota held at Treasury rather than in the U.S. reserve position held at the IMF are recorded as a change in obligations.

Investments of the National Railroad Retirement Investment Trust

Under longstanding rules, the budget has generally treated investments in non-Federal equities and debt se-

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

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

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

FEDERAL EMPLOYMENT

The budget includes information on civilian and military employment. It also includes information on related personnel compensation and benefits and on staffing requirements at overseas missions. Chapter 11 of this volume, "Improving the Federal Workforce," provides employment levels measured in full-time equivalents (FTE). Agency FTEs are the measure of total hours worked by an agency's Federal employees divided by the total number of one person's compensable work hours in a fiscal year.

BASIS FOR BUDGET FIGURES

Data for the Past Year

The past year column (2011) 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 30 of this volume, "Comparison of Actual to Estimated Totals," for a summary of these differences).

Data for the Current Year

The current year column (2012) includes estimates of transactions and balances based on the amounts of budgetary resources that were available when the budget was transmitted. In cases where the budget proposes policy changes effective in the current year, the data will also reflect the budgetary effect of those proposed changes.

Data for the Budget Year

The budget year column (2013) includes estimates of transactions and balances based on the amounts of budgetary resources that are estimated to be available, including new budget authority requested under current authorizing legislation, and amounts estimated to result from changes in authorizing legislation and tax laws.

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

Data for the Outyears

The budget presents estimates for each of the nine years beyond the budget year (2014 through 2022) in order to reflect the effect of budget decisions on objectives and plans over a longer period.

Allowances

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

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

Baseline

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

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

The baseline serves several useful purposes:

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

As it happens, a number of significant changes in policies are embedded in the baseline rules specified in the Balanced Budget and Emergency Deficit Control Act, as amended (BBEDCA). For example, the tax cuts enacted in 2001 and 2003 and extended in 2010 are scheduled under current law to expire at the end of 2012. As another example, the BBEDCA discretionary caps would reduce discretionary spending below the levels produced by the baseline rule to inflate enacted appropriations. Because the expiration of the 2001 and 2003 tax cuts and the operation of the discretionary caps would create significant differences between the BBEDCA baseline and policies in effect this year, the Administration also issues an adjusted baseline that, unlike the BBEDCA baseline, assumes such changes in policy will not occur. (Chapter 27 of this volume, "Current Services Estimates," provides more information on the baseline, including the differences between the baseline as calculated under the rules of the BBEDCA and the adjusted baseline used in this Budget.)

PRINCIPAL BUDGET LAWS

The following basic laws govern the Federal budget process:

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

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

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

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

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

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

Congressional Budget Act of 1974, as amended, which prescribes the congressional budget process; and

Impoundment Control Act of 1974, which controls certain aspects of budget execution.

Federal Credit Reform Act of 1990, as amended (2 USC 661–661f), which the Budget Enforcement Act of 1990 included as an amendment to the Congressional Budget Act to prescribe the budget treatment for Federal credit programs.

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

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

GLOSSARY OF BUDGET TERMS

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

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

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

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

Agency means a department or other establishment of the Government.

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

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

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

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

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

Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) refers to legislation that altered the budget process, primarily by replacing the earlier fixed targets for annual deficits with a Pay-As-You-Go requirement for new tax or mandatory spending legislation and with caps on annual discretionary funding. While most aspects of these requirements expired in 2002, the Statutory Pay-As-You-Go Act of 2010, which is a standalone piece of legislation that did not directly amend the BBEDCA, reinstated a statutory pay-as-you-go rule for revenues and mandatory spending legislation, and the Budget Control Act of 2011, which did amend BBEDCA, reinstated discretionary caps on budget authority.

Budget Control Act of 2011 refers to legislation that reinstated discretionary spending limits on budget authority through 2021. The law amended the BBEDCA. The legislation also increased the statutory debt ceiling, required a congressional vote on a Balanced Budget Amendment, created a congressional debt ceiling disapproval process, created a Joint Select Committee on Deficit Reduction and statutory and congressional procedures for enforcement of the budget goal, and made changes to the Pell Grant and Student Loan programs.

Budget resolution—see concurrent resolution on the budget.

Budget totals mean the totals included in the budget for budget authority, outlays, receipts, and the surplus or deficit. Some presentations in the budget distinguish on-budget totals from off-budget totals. On-budget totals reflect the transactions of all Federal Government entities except those excluded from the budget totals by law. 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 BBEDCA, as amended, on the budget authority and outlays (only if applicable) provided by discretionary appropriations.

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

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

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

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

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

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

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

Current services estimate—see Baseline.

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

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

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

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

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

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

Direct spending—see mandatory spending.

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

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

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

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

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

Financing account means a non-budgetary account (an account whose transactions are excluded from the budget totals) that records all of the cash flows resulting from post-1991 direct loan obligations or loan guarantee commitments. At least one financing account is associated with each credit program account. For programs that make both direct loans and loan guarantees, 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 starting in the last quarter of the fiscal year for the financing of ongoing grant programs during the next fiscal year.

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

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

Intragovernmental fund —see Revolving fund.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Public enterprise fund —see Revolving fund.

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

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

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

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

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

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

tions if discretionary appropriations exceed the statutory limits on discretionary spending.

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

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

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

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

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

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

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

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

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

Unobligated balance means the cumulative amount of budget authority within a budget account 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).

13. COVERAGE OF THE BUDGET

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 in order to provide public goods and achieve public policy objectives. The budget is the Government's financial plan for proposing and deciding the allocation of resources and the Government's method for 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[1] of Federal credit programs, it does not include the cash flows of these programs that do not involve a direct allocation of resources by the Government and that are a means of financing these programs. 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 documents.

The term "off-budget" may appear to be synonymous with non-budgetary. However, it 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. The term is also used colloquially to refer to emergency funding or supplemental appropriations for war costs because these items have often been passed by the Congress outside of the normal budget enforcement procedures. Despite the colloquial usage of the term off-budget, emergency aid and funding for war costs are budgetary and specifically "on-budget," as that term is defined below; budgetary outlays and receipts reflect the costs of both emergencies and wars.

Budgetary Activities

The Federal Government has used the unified budget concept as the foundation for its budgetary analysis and presentation since the 1969 Budget, implementing a recommendation made by the President's Commission on Budget Concepts in 1967. The Commission called for the budget to include the financial transactions of all of the Federal Government's programs and agencies. For this reason, the budget includes the financial transactions of all 15 Executive departments, all independent agencies (from all three branches of Government), and all Government corporations.[2] Government corporations are distinct from Government-sponsored enterprises, which, as discussed below, are private entities and classified as non-budgetary.

All accounts in Table 33-1, "Federal Programs by Agency and Account," in the Supplemental Materials to this volume are budgetary.[3] The vast majority of budgetary accounts are associated with the departments or other entities that are clearly Federal agencies. Some budgetary accounts reflect Government payments to entities that were created by the Government as private or non-Federal entities and some of these entities receive all or a majority of their funding from the Government. These include the Corporation for Public Broadcasting, Gallaudet University, Howard University, the Legal Services Corporation, the National Railroad Passenger Corporation (Amtrak), the Smithsonian Institution, the State Justice Institute, and the United States Institute for Peace. Although the Federal payments to these entities are budgetary, the entities themselves are non-budgetary, as discussed below.

Whether an entity was created or chartered by the Government does not alone determine its budgetary status. As noted below, some Government created or chartered entities are classified as non-budgetary because they recieve or were designed to receive the majority of their funding from non-Federal sources or because they are not controlled entirely by the Government. The President's 1967 Commission on Budget Concepts recommended that the budget be comprehensive, but it also recognized that proper budgetary classification would require weighing all relevant factors regarding ownership and control of an

[1] Subsidy costs are explained in the section below on "Federal credit programs."

[2] Government corporations are Government entities that are defined as corporations under 31 U.S.C. 9101, the Government Corporation Control Act, and four other entities. The four other entities are the African Development Foundation (which is subject to the Act by 22 U.S.C. 290h-6), the Inter-American Foundation (which is subject to the Act by 22 U.S.C. 290f), the Presidio Trust (which was established as a Government corporation by 16 U.S.C. 460bb note), and the Valles Caldera Trust (which is classified as a Government corporation by 16 U.S.C. 698v-4). Many Government corporations engage in a cycle of business activity with the public, selling services to the public at prices that enable the entities to be self-sustaining. Examples of Government corporations include the Commodity Credit Corporation, the Export-Import Bank of the United States, the Federal Crop Insurance Corporation, the Federal Deposit Insurance Corporation, the Millennium Challenge Corporation, the Overseas Private Investment Corporation, the Pension Benefit Guaranty Corporation, and the Tennessee Valley Authority.

[3] Table 33-1 can be found at www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/33_1.pdf.

Table 13–1. COMPARISON OF TOTAL, ON-BUDGET, AND OFF-BUDGET TRANSACTIONS [1]
(In billions of dollars)

Fiscal Year	Receipts			Outlays			Surplus or deficit (–)		
	Total	On-budget	Off-budget	Total	On-budget	Off-budget	Total	On-budget	Off-budget
1980	517.1	403.9	113.2	590.9	477.0	113.9	–73.8	–73.1	–0.7
1981	599.3	469.1	130.2	678.2	543.0	135.3	–79.0	–73.9	–5.1
1982	617.8	474.3	143.5	745.7	594.9	150.9	–128.0	–120.6	–7.4
1983	600.6	453.2	147.3	808.4	660.9	147.4	–207.8	–207.7	–0.1
1984	666.4	500.4	166.1	851.8	685.6	166.2	–185.4	–185.3	–0.1
1985	734.0	547.9	186.2	946.3	769.4	176.9	–212.3	–221.5	9.2
1986	769.2	568.9	200.2	990.4	806.8	183.5	–221.2	–237.9	16.7
1987	854.3	640.9	213.4	1,004.0	809.2	194.8	–149.7	–168.4	18.6
1988	909.2	667.7	241.5	1,064.4	860.0	204.4	–155.2	–192.3	37.1
1989	991.1	727.4	263.7	1,143.7	932.8	210.9	–152.6	–205.4	52.8
1990	1,032.0	750.3	281.7	1,253.0	1,027.9	225.1	–221.0	–277.6	56.6
1991	1,055.0	761.1	293.9	1,324.2	1,082.5	241.7	–269.2	–321.4	52.2
1992	1,091.2	788.8	302.4	1,381.5	1,129.2	252.3	–290.3	–340.4	50.1
1993	1,154.3	842.4	311.9	1,409.4	1,142.8	266.6	–255.1	–300.4	45.3
1994	1,258.6	923.5	335.0	1,461.8	1,182.4	279.4	–203.2	–258.8	55.7
1995	1,351.8	1,000.7	351.1	1,515.7	1,227.1	288.7	–164.0	–226.4	62.4
1996	1,453.1	1,085.6	367.5	1,560.5	1,259.6	300.9	–107.4	–174.0	66.6
1997	1,579.2	1,187.2	392.0	1,601.1	1,290.5	310.6	–21.9	–103.2	81.4
1998	1,721.7	1,305.9	415.8	1,652.5	1,335.9	316.6	69.3	–29.9	99.2
1999	1,827.5	1,383.0	444.5	1,701.8	1,381.1	320.8	125.6	1.9	123.7
2000	2,025.2	1,544.6	480.6	1,789.0	1,458.2	330.8	236.2	86.4	149.8
2001	1,991.1	1,483.6	507.5	1,862.8	1,516.0	346.8	128.2	–32.4	160.7
2002	1,853.1	1,337.8	515.3	2,010.9	1,655.2	355.7	–157.8	–317.4	159.7
2003	1,782.3	1,258.5	523.8	2,159.9	1,796.9	363.0	–377.6	–538.4	160.8
2004	1,880.1	1,345.4	534.7	2,292.8	1,913.3	379.5	–412.7	–568.0	155.2
2005	2,153.6	1,576.1	577.5	2,472.0	2,069.7	402.2	–318.3	–493.6	175.3
2006	2,406.9	1,798.5	608.4	2,655.0	2,233.0	422.1	–248.2	–434.5	186.3
2007	2,568.0	1,932.9	635.1	2,728.7	2,275.0	453.6	–160.7	–342.2	181.5
2008	2,524.0	1,865.9	658.0	2,982.5	2,507.8	474.8	–458.6	–641.8	183.3
2009	2,105.0	1,451.0	654.0	3,517.7	3,000.7	517.0	–1,412.7	–1,549.7	137.0
2010	2,162.7	1,531.0	631.7	3,456.2	2,901.5	554.7	–1,293.5	–1,370.5	77.0
2011	2,303.5	1,737.7	565.8	3,603.1	3,104.5	498.6	–1,299.6	–1,366.8	67.2
2012 estimate	2,468.6	1,896.5	572.1	3,795.5	3,290.4	505.2	–1,326.9	–1,393.9	67.0
2013 estimate	2,902.0	2,224.5	677.4	3,803.4	3,169.3	634.1	–901.4	–944.7	43.3
2014 estimate	3,215.3	2,472.9	742.4	3,883.1	3,167.9	715.2	–667.8	–695.0	27.2
2015 estimate	3,450.2	2,669.3	780.9	4,059.9	3,298.2	761.6	–609.7	–629.0	19.2
2016 estimate	3,680.1	2,847.3	832.8	4,328.8	3,519.9	808.9	–648.8	–672.6	23.9
2017 estimate	3,919.3	3,038.1	881.1	4,531.7	3,672.5	859.2	–612.4	–634.4	22.0

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

entity. Generally, entities that are primarily owned and controlled by the Government are classified as budgetary. The budgetary classification of entities is made jointly by the Office of Management and Budget (OMB), the Congressional Budget Office (CBO), and the Budget Committees of the Congress.[4]

Off-budget Federal activities.—Despite the 1967 Commission's recommendation that the budget be comprehensive, every year since 1971, at least one Federal program or agency that would otherwise be included in the budget has been presented as off-budget because of a requirement in the law. Such off-budget Federal activities are funded by the Government and administered

[4] Until the 2011 Budget, the Securities Investor Protection Corporation (SIPC) was classified as non-budgetary. In the fall of 2009, OMB, CBO, and the Budget Committees of the Congress reviewed the non-budgetary status of SIPC and decided to reclassify it as budgetary. The Corporation for Travel Promotion created by the Travel Promotion Act of 2009, Public Law 111-145, has been classified as budgetary since the release of the 2012 Budget. The State programs of reinsurance and risk adjustments mandated by the Patient Protection and Affordable Care Act, Public Law 111-148, have also been classified as budgetary since the 2012 Budget release.

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

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

The off-budget Federal activities currently consist of the U.S. Postal Service and the two Social Security Trust Funds: Old-Age and Survivors Insurance and Disability Insurance. Social Security has been classified as off-budget since 1986 and the Postal Service has been classified as off-budget since 1990.[5] Other activities that had been declared off-budget by law at different times before 1986 have been classified as on-budget by law since at least 1985.

Table 13–1 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. Activities that were off-budget at one time but are now on-budget are classified as on-budget for all years.

Because Social Security is the largest single program in the unified budget and is classified by law as off-budget, the off-budget accounts constitute a significant part of total Federal spending and receipts. In 2013, off-budget receipts are an estimated 23.3 percent of total receipts and off-budget outlays are a smaller, but still significant, percentage of total outlays at 16.7 percent. The estimated unified budget deficit in 2013 is $901 billion—a $945 billion on-budget deficit partly offset by a $43 billion off-budget surplus. The off-budget surplus for 2011, 2012, and 2013 consists entirely of the Social Security surplus.[6] Social Security had small deficits or surpluses from its inception through the early 1980s and large and growing surpluses from the mid-1980s until 2008. Because of the economic downturn, the Social Security surplus has been declining for several years, but it is expected to begin growing again during the budget horizon. Over the long term, however, the Social Security trust funds will begin to be drawn down under current law and, without further legislative action, will be depleted in 2036.

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.[7] Some of the Government's major non-budgetary activities are discussed below and, as noted below, some of these activities affect budget outlays or receipts even though they have components that are non-budgetary.

Federal credit programs: budgetary and non-budgetary transactions.—Federal credit programs make direct loans or guarantee private loans to non-Federal borrowers. The Federal Credit Reform Act of 1990 (FCRA) established the current budgetary treatment for credit programs.

Under FCRA, the budgetary cost of a credit program is known as the "subsidy cost" and outlays equal to the subsidy cost are recorded in the budget when a loan is made or guaranteed. The subsidy cost is the estimated cost to the Government of a loan or a loan guarantee on a net present value basis, not including the Government's administrative costs of providing or guaranteeing the loan. All other credit program cash flows to and from the public are treated as non-budgetary.

To illustrate the budgetary and non-budgetary components of a credit program, consider a portfolio of new direct loans made to a cohort of college students. To encourage higher education, the Government offers loans at more favorable terms than private lenders, for example, lower interest rates or longer repayment periods. Students agree to repay the loans according to the terms of their promissory notes, but some students are likely to become delinquent or default on their loans, leading to Government losses. Under credit reform, the subsidy cost equals the net estimated lifetime cash flows to and from the Government (excluding administrative costs) discounted to the point of the loan disbursement. If the repayments of principal and interest are not sufficient to offset the expected losses from delinquencies, defaults, or costs associated with favorable loan terms, the present value of the expected future cash flows will be less than the Government disburses in loans and the Government will incur a cost (known as the subsidy cost). The subsidy cost is the difference in present value between the

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

[6] The 2011 off-budget surplus reflects a $68.0 billion surplus for Social Security and a $0.8 billion deficit for the Postal Service. The estimated 2012 off-budget surplus reflects a $61.9 billion surplus for Social Security and a $5.1 billion surplus for the Postal Service, and the projected 2013 off-budget surplus reflects a $38.7 billion surplus for Social Security and a $4.6 billion surplus for the Postal Service.

[7] Tax expenditures, which are discussed in Chapter 17 of this volume, are an example of Government activities that could be characterized as either budgetary or non-budgetary. Tax expenditures refer to the reduction in tax receipts resulting from the special tax treatment accorded certain private activities. Because tax expenditures reduce tax receipts and receipts are budgetary, tax expenditures clearly have budgetary effects. However, the size and composition of tax expenditures are not explicitly recorded in the budget as outlays or as negative receipts and, for this reason, tax expenditures might be considered a special case of non-budgetary transactions.

amount disbursed by the Government and the estimated value of the future repayments the Government expects to receive. The remainder of the transaction (beyond the amount recorded as a subsidy cost) is simply an exchange of financial assets of equal value and does not result in a cost to the Government.

Since credit reform first took effect in 1992, the budget outlays for credit programs have reflected only the subsidy costs of Government credit and have shown the cost when the credit assistance was or is expected to be provided. Credit reform allows the budget to reflect more accurately the cost of credit decisions.[8] This enables the budget to fulfill its purpose of serving as a financial plan for allocating resources among alternative uses by allowing comparisons of the expected cost of credit programs along with the cost of other spending programs, and allowing comparisons of the cost of one type of credit assistance with the cost of another type.[9] Credit programs are discussed in more detail in Chapter 23 of this volume, "Credit and Insurance."

Deposit funds.—Deposit funds are non-budgetary accounts that record amounts held by the Government temporarily until ownership is determined (such as earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (such as State income taxes withheld from Federal employees' salaries and not yet paid to the States). The largest deposit fund is the Government Securities Investment Fund, which is also known as the G Fund. It is one of several investment funds managed by the Federal Retirement Thrift Investment Board, as an agent, for Federal employees who participate in the Government's defined contribution retirement plan, the Thrift Savings Plan (which is similar to private-sector 401(k) plans). Because the G Fund assets, which are held by the Department of the Treasury, are the property of Federal employees and are held by the Government only in a fiduciary capacity, the transactions of the Fund are not resource allocations by the Government and are therefore non-budgetary.[10] For similar reasons, the budget excludes funds that are owned by Native American Indians but held and managed by the Government in a fiduciary capacity.

Government-sponsored enterprises.—The Federal Government has chartered Government-sponsored enterprises (GSEs) such as the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks, the Farm Credit System, and the Federal Agricultural Mortgage Corporation to provide financial intermediation for specified public purposes. Although federally chartered to serve public-policy purposes, the GSEs are classified as non-budgetary and excluded from the Budget. This is because they are intended to be privately owned and controlled, with any public benefits accruing indirectly from the GSEs' business transactions. Estimates of the GSEs' activities are reported in a separate chapter of the *Budget Appendix,* and their activities are discussed in Chapter 23 of this volume, "Credit and Insurance."

In September 2008, in response to the financial market crisis, the director of the Federal Housing Finance Agency (FHFA)[11] placed Fannie Mae and Freddie Mac into conservatorship for the purpose of preserving the assets and restoring the solvency of these two GSEs. As conservator, FHFA has broad authority to direct the operations of these GSEs. However, these GSEs remain private companies with Boards of Directors and management responsible for their day-to-day operations. This Budget continues to treat these two GSEs as non-budgetary private entities in conservatorship rather than as Government agencies. By contrast, the CBO treats these GSEs as budgetary Federal agencies. Both treatments include budgetary and non-budgetary amounts.

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

Overall, both the Budget's accounting and CBO's accounting present the GSEs' losses as Government outlays, which increase Government deficits. The two

[8] Both credit reform accounting and the earlier cash accounting of Federal credit programs would ultimately show the same costs for credit transactions. For example, cash accounting for direct loans would show the full disbursement of the loan as an outlay when it was made and then later show the repayments of principal and interest as an offset to outlays. Over the life of the loan, only the net cost of the loan would ultimately be reflected in the budget. Credit accounting shows that same net cost, but shows that cost at the time the loan is made (adjusting the cash flows for the time-value of money). Under cash accounting, the outlays recorded when a loan was made overstated the lifetime costs of the loan and the outlays recorded when a guarantee was made understated the lifetime cost of the guarantee. Credit reform makes it possible to consider the full cost of a credit program at the time the program decisions are made and in a way that enables the cost of credit programs to be compared to other forms of Government assistance, such as grants.

[9] 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 12 of this volume, "Budget 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. 223–226. 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. 142–144. 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.

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

[11] The Housing and Economic Recovery Act of 2008, enacted on July 30, 2008, created the FHFA as the new regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. FHFA reflects the merger of the Office of Federal Housing Enterprise Oversight, the Federal Housing Finance Board, and the Department of Housing and Urban Development's Government-sponsored enterprise mission team.

approaches, however, reflect the losses as budgetary costs at different times.

Other federally created non-budgetary entities.—In addition to chartering the GSEs, the Federal Government has created a number of other entities that are classified as non-budgetary. These include federally funded research and development centers (FFRDCs), non-appropriated fund instrumentalities (NAFIs), and other entities, some of which are incorporated as non-profit entities and some of which are incorporated as for-profit entities.[12]

FFRDCs are entities that conduct agency-specific research under contract or cooperative agreement. Most FFRDCs were created by and conduct research for the Departments of Defense and Energy, and most are administered by colleges, universities, or other non-profit entities. Examples of federally funded research and development centers are the Center for Naval Analysis, Los Alamos National Laboratory, and the Jet Propulsion Laboratory.[13] FFRDCs are non-budgetary, but the Federal agency's payments to the FFRDC are recorded as budget outlays. In addition to Federal funding, FFRDCs may receive funding from non-Federal sources.

Non-appropriated fund instrumentalities (NAFIs) are entities that support an agency's personnel. Virtually all NAFIs are associated with the Departments of Defense, Homeland Security (Coast Guard), and Veterans Affairs. Most NAFIs are located on military bases and include the armed forces exchanges (which sell goods to military personnel and their families), recreational facilities, and child care centers. NAFIs do not receive direct appropriations; they are financed by the proceeds from the sale of goods or services. Because NAFIs are non-budgetary, any agency payments to the NAFIs are recorded as budget outlays.

As noted above in the section on "Budgetary Activities," a number of entities created by the Government receive a significant amount of non-Federal funding. In addition, some such entities are significantly controlled by non-Federal individuals or organizations. Although not exhaustive, this list of entities includes Gallaudet University, Howard University, the United States Enrichment Corporation, and the Universal Services Administrative Company.[14] Most of these entities receive direct appropriations or other recurring payments from the Government, and the appropriations or other payments are budgetary and included in Table 33-1, mentioned above. However, many of these entities are themselves non-budgetary. Generally, entities that receive a significant portion of funding from non-Federal sources and that are not controlled by the Government are treated as non-budgetary. As noted above, classifications for budgetary and non-budgetary status are made jointly by OMB, CBO, and the Budget Committees of the Congress.[15]

Regulation.—Federal Government regulation often requires the private sector or other levels of government to make expenditures for specified purposes that are intended to have public benefits, 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 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.[16]

The estimated costs and benefits of Federal regulation have been published annually by OMB since 1997. The latest report was released in June 2011.[17] In this report, OMB indicates that the estimated annual benefits of Federal regulations it reviewed from October 1, 2000, to September 30, 2010, range from $132 billion to $655 billion, while the estimated annual costs range from $44

[12] Although most entities created by the Federal Government are budgetary, as discussed in this section, the GSEs and the Federal Reserve System were created by the Federal Government, but are classified as non-budgetary. In addition, Congress and the President have chartered, but not necessarily created, approximately 100 nonprofit entities that are non-budgetary. These include patriotic, charitable, and educational organizations under Title 36 of the United States Code and foundations and trusts chartered under other titles of the Code. Title 36 corporations include the American Legion, the American National Red Cross, Big Brothers-Big Sisters of America, Boy Scouts of America, Future Farmers of America, Girl Scouts of the United States of America, the National Academy of Public Administration, the National Academy of Sciences, and Veterans of Foreign Wars of the United States. Virtually all of the nonprofit entities chartered by the Government existed under State law prior to the granting of a Government charter, making the Government charter an honorary rather than governing charter; a major exception to this is the American National Red Cross. Its Government charter requires it to provide disaster relief and to ensure compliance with treaty obligations under the Geneva Convention. Although any Government payments (whether made as direct appropriations or through agency appropriations) to these chartered nonprofits, including the Red Cross, would be budgetary, the nonprofits themselves are classified as non-budgetary. On March 10, 2011, the Subcommittee on Immigration Policy and Enforcement of the Committee on the Judiciary in the U.S. House of Representatives adopted a policy prohibiting Congress from granting new Federal charters to private, non-profit organizations. This policy has been adopted by every subcommittee with jurisdiction over charters since the 101st Congress.

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

[14] Under section 415(b) of the Amtrak Reform Act of 1997, Public Law 105-134, Amtrak is required to redeem all of its outstanding common stock. Once all outstanding common stock is redeemed, Amtrak will be wholly owned by the Government and, at that point, its non-budgetary status may need to be reassessed.

[15] In the spring of 2010, OMB, CBO, and the Budget Committees of Congress agreed to reclassify as non-budgetary those copyright royalties received and subsequently paid out by the Copyright Office where (1) the amount paid by users of copyrighted material to copyright owners is directly related to the frequency or quantity of the material used, and (2) the law allows copyright owners and users to voluntarily set the rate paid for the use of protected material. Because they do not satisfy these two conditions, the copyright fees collected and paid out by the Copyright Office under 17 U.S.C. 1004 remain classified as budgetary.

[16] 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 July 7, 2011. Both the Regulatory Plan and Unified Agenda are available on-line at www.reginfo.gov and at www.gpoaccess.gov.

[17] Office of Information and Regulatory Affairs, OMB, 2011 Report to Congress on the Benefits and Costs of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities (June 2011). The Report is available at www.whitehouse.gov/omb/inforeg_regpol_reports_congress/.

to $62 billion. In its report, OMB discusses the impact of Federal regulation on State, local, and tribal governments, and agency compliance with the Unfunded Mandates Reform Act of 1995. The costs and benefits of Federal regulation are also discussed in Chapter 9 of this volume, "Benefit-Cost Analysis."

Monetary policy.—As noted above, the budget is a financial plan for allocating resources by raising revenues and spending those revenues. As a fiscal policy tool, the budget is used by elected Government officials to promote economic growth and achieve other public policy objectives. Monetary policy is another tool that governments use to promote public policy objectives. In the United States, monetary policy is conducted by the Federal Reserve System, which is composed of a Board of Governors and 12 regional Federal Reserve Banks. The Federal Reserve Act provides that the goal of monetary policy is to "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."[18] The dual goals of full employment and price stability were reaffirmed by the Full Employment and Balanced Growth Act of 1978, also known as the Humphrey-Hawkins Act.[19]

By law, the Federal Reserve System is a self-financing entity that is independent of the Executive Branch and subject to only broad oversight by the Congress. Consistent with the recommendations of the 1967 President's Commission on Budget Concepts, the effects of monetary policy and the actions of the Federal Reserve System are, with two exceptions, non-budgetary. Although the relatively recent increase in the Federal Reserve's balance sheet in response to the financial crisis has had important macroeconomic consequences, it does not directly affect the Federal deficit.

The exceptions to the treatment of Federal Reserve transactions as non-budgetary involve excess earnings of the Federal Reserve System. The Federal Reserve System earns income from a variety of sources including interest on U.S. Government securities, foreign currency investments and loans to depository institutions, and fees for services (e.g., check clearing services) provided to depository institutions. After paying its expenses, the Federal Reserve System remits to the U.S. Treasury any excess income. This income, which is classified in the budget as a governmental receipt, was equal to $82.5 billion in 2011. The recent expansion of the Federal Reserve's balance sheet has increased its sources of income (and potential loss), which in turn has affected the Federal Reserve's excess income payment to the Treasury. In addition to remitting excess income to the Treasury, the Dodd-Frank Wall Street Reform and Consumer Protection Act requires the Federal Reserve to transfer a portion of its excess earnings to the Consumer Financial Protection Bureau, an independent bureau of the Federal Reserve, which was created by the Act.[20]

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

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

Financial Stabilization Activity

Since late 2007, the Federal Reserve System, Executive Branch agencies, and the GSEs Fannie Mae and Freddie Mac have been engaged in a variety of activities designed to stabilize the financial markets and restore economic growth. The actions taken by the Federal Reserve System[21] are non-budgetary for reasons discussed above in the section on "Monetary policy." However, as also noted above, Federal Reserve actions may affect the System's earnings, which ultimately affect governmental receipts. The placement of Fannie Mae and Freddie Mac into conservatorship, discussed above in the section on "Government-sponsored enterprises," is not treated as affecting their non-budgetary status, so the GSEs' transactions with the public are not included in the 2013 Budget. However, as with other transactions between non-budgetary entities and the Government, the transactions of the GSEs with the Government, including all cash payments from the Treasury to the GSEs, are included in the 2013 Budget.

Executive Branch activities in support of financial market stabilization include actions taken by the Department of the Treasury, the Federal Deposit Insurance Corporation (FDIC), the National Credit Union

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

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

[20] See section 1011 of Public Law 111-203, enacted on July 21, 2010. OMB determined that the Consumer Financial Protection Bureau is a budgetary entity.

[21] The following Federal Reserve liquidity facilities that were created during the financial market crisis have been allowed to expire: the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Money Market Investor Funding Facility, the Primary Dealer Credit Facility, the Term Auction Facility, and the Term Securities Lending Facility. The Federal Reserve Bank of New York continues to lend under the Term Asset-Backed Securities Loan Facility, a program administered jointly with the Department of the Treasury.

Administration (NCUA), and the Federal Housing Finance Agency (FHFA). The Treasury activities include three credit market programs—the Public-Private Investment Partnership program, the Term Asset-Backed Securities Loan Facility (administered jointly with the Federal Reserve), and the Small Business Administration (SBA) 7(a) Securities Purchase Program. In addition, Treasury activities include two housing programs—the Making Home Affordable Program and the Hardest Hit Fund. Treasury activities also include the Capital Purchase Program (which includes the Small Business Lending Fund), the Asset Guarantee Program (administered jointly with the Federal Reserve and the FDIC), the Automotive Industry Financing Program, and an investment in American International Group.[22] Actions by the FDIC include the Temporary Liquidity Guarantee Program and actions by the NCUA include the Temporary Corporate Credit Union Liquidity Guarantee Program. Actions by the FHFA include the placement of the GSEs into conservatorship in 2008 and the subsequent and ongoing management of the GSEs. Chapter 4 of this volume, "Financial Stabilization Efforts and Their Budgetary Effects," discusses all Government efforts to stabilize the financial markets and restore economic growth.

As distinct from the activities of the Federal Reserve and the GSEs, the activities of the Department of the Treasury, the FDIC, and the NCUA are budgetary. The total budget impact of all of the credit market stabilization efforts undertaken by the Treasury, other Executive Branch agencies, the GSEs, and the Federal Reserve may not be known with certainty for several years. Nevertheless, actual and estimated outlays and receipts are included in the 2013 Budget. In addition, the actual and estimated impacts of credit market stabilization efforts on the Federal debt held by the public are included in the 2013 Budget.

[22] Treasury has completed its work on two programs—the Targeted Investment Program and the Community Development Capital Initiative. In addition, Treasury is in the process of selling off the mortgage-backed securities it purchased from the GSEs.

14. BUDGET PROCESS

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

This chapter begins with a report on the status of the discretionary caps that were reinstated by the Budget Control Act of 2011 (BCA). The report fulfills the requirement under section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) for the Office of Management and Budget (OMB) to issue a sequestration preview report for fiscal year 2013. The chapter then describes three broad categories of budget reform. First, the chapter discusses proposals to strengthen budgeting and fiscal sustainability of individual programs as well as across Government. These proposals include: legislation that is more than sufficient to meet the $1.2 trillion savings target established for the Joint Select Committee on Deficit Reduction and restore the security and nonsecurity caps to their original levels; various initiatives to reduce improper payments; funding requested for disaster relief; limiting advance appropriations; structural reforms for surface transportation programs; funding the maximum Pell Grant award; Postal Service reforms; providing a fast-track procedure for Congress to consider certain rescission requests; and a debt trigger procedure that would require enactment of debt reduction legislation if debt net of financial assets exceeds specified ceilings. Second, the chapter provides a status update of scoring under the Statutory Pay-As-You-Go Act of legislation affecting receipts and mandatory spending, and it summarizes the Administration's commitment to applying a PAYGO requirement to administrative actions affecting mandatory spending. Finally, the chapter presents proposals to revise the budget baseline and to improve budget presentation, for example, by including an allowance for the costs of potential future natural disasters and by projecting the costs of certain major tax and spending policies currently in effect, such as relief from the growing scope of the Alternative Minimum Tax, even though those policies are scheduled to expire within the budget window. This revised baseline better captures the likely future costs of operating the Federal Government. This section also discusses the use of debt net of financial assets, instead of debt held by the public, as a better measure of the Government's demand on private credit markets.

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

I. PREVIEW REPORT

The BCA amended the BBEDCA by reinstating limits on discretionary budget authority, which expired after 2002. Section 254 of the BBEDCA requires OMB to issue a sequestration preview report with the President's budget submission. This Preview Report, the first of the three required sequestration reports for 2013, provides the status of the discretionary limits for the current year and each year thereafter through 2021 as of the end of the first session of the 112th Congress based on current law. As the BBEDCA requires, the estimates in this report rely on the same economic and technical assumptions that are used in the President's 2013 Budget.

Throughout each session of Congress, OMB is required to monitor compliance with the discretionary spending limits. Within seven working days of enactment of an appropriations bill, OMB reports its estimates of the total discretionary budget authority and outlays provided by the legislation. If the bill provides additional appropriations for the current year, OMB also determines at that time whether the additional budget authority would cause total discretionary appropriations to exceed the budget authority cap. OMB makes the same determination for the budget year at the end of each session of Congress. Appropriations that OMB estimates exceed the budget authority limits trigger an across-the-board reduction (or sequestration) to eliminate the excess spending. The law, however, does not require that Congress appropriate the full amount available under the discretionary limits.

OMB will issue a sequestration update report in August, which will provide a mid-year status update on the limits and enacted appropriations, as well as a preview estimate of the 2013 adjustment for disaster funding. A final sequestration report will be issued after the end of this congressional session and will contain final estimates of enacted appropriations and any adjustments to the discretionary limits. If it is determined that a breach has occurred, the Final Report will also include a Presidential Order for implementing a sequestration of non-exempt discretionary accounts to eliminate the breach as calculated by OMB. As required by the BBEDCA, OMB's estimates in each seven-day-after report and each sequestration report will be made using the same economic and technical assumptions underlying the President's Budget. In addition, each of these reports will contain comparisons between OMB's estimates and estimates from the Congressional Budget Office and explain any differences between those estimates.

DISCRETIONARY SEQUESTRATION REPORT

Discretionary programs are funded annually through the appropriations process. The BBEDCA, as amended by the BCA, limits—or caps—budget authority available for discretionary programs each year through 2021. Section 251 of BBEDCA specified for 2012 and 2013 separate "security" and "nonsecurity" categories for discretionary programs. The security category includes discretionary appropriations associated with agency budgets for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account, and all discretionary budget accounts in budget function 150 (international affairs). The nonsecurity category includes all budget accounts that do not fall into the security category. After 2013, section 251 specified a single category for all discretionary spending referred to as the "discretionary" category.

Section 302 of the BCA provided for phased revisions to the caps if legislation proposed by the Joint Select Committee on Deficit Reduction to reduce the deficit by more than $1.2 trillion was not enacted by January 15, 2012. Because such legislation was not enacted by this date, the section 302 phased revisions to the caps have been triggered. OMB's Final Sequestration Report for FY 2012, issued on January 18, 2012, made the first and only revision required at this time, which is a redefinition of the discretionary caps. The limits resulting from that report serve as the starting point for this Preview Report.

The security category was redefined to include only the discretionary programs in the defense budget function (050), which mainly consists of the Department of Defense. The nonsecurity category was redefined to consist of all discretionary programs not in the security category – essentially all non-defense (non-050) budget functions. The revised categories are in place starting in 2013 and continue through 2021, while the overall discretionary category is eliminated. The cap amounts were adjusted to reflect the redefinitions, as specified by section 302 of the BCA, but, at this time, the total amount of discretionary spending equals the total amounts provided under section 251 of the BBEDCA. Absent the enactment of subsequent legislation, OMB is required to implement future reductions in the revised discretionary caps, as well as a reduction via a sequestration of non-exempt discretionary spending on January 2, 2013. Because those reductions are not required at this time, the revised limits

Table 14–1. OVERVIEW OF CHANGES TO DISCRETIONARY SPENDING LIMITS AND THE PRESIDENT'S PROPOSED LIMITS IN THE 2013 BUDGET

(Discretionary budget authority in billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Original limits set in Title I of Budget Control Act of 2011:										
Security Category	684.0	686.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nonsecurity Category	359.0	361.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Discretionary Category	N/A	N/A	1,066.0	1,086.0	1,107.0	1,131.0	1,156.0	1,182.0	1,208.0	1,234.0
Enacted adjustments pursuant to section 251(b)(2) of BBEDCA:										
OCO/GWOT:										
Security Category	+126.5	....	....	....	....	....	....	....	....	....
Program Integrity:										
Nonsecurity Category	+0.5	....	....	....	....	....	....	....	....	....
Disaster Relief :										
Security Category	+6.4	....	....	....	....	....	....	....	....	....
Nonsecurity Category	+4.1	....	....	....	....	....	....	....	....	....
Redefinition of limits pursuant to section 251A of BBEDCA:										
Security Category	N/A	–686.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nonsecurity Category	N/A	–361.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Discretionary Category	N/A	N/A	–1,066.0	–1,086.0	–1,107.0	–1,131.0	–1,156.0	–1,182.0	–1,208.0	–1,234.0
Revised Security Category	N/A	+546.0	+556.0	+566.0	+577.0	+590.0	+603.0	+616.0	+630.0	+644.0
Revised Nonsecurity Category	N/A	+501.0	+510.0	+520.0	+530.0	+541.0	+553.0	+566.0	+578.0	+590.0
Revised limits included in the OMB Final Sequestration and Preview Reports:										
Security Category	816.9	....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nonsecurity Category	363.5	....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Discretionary Category	N/A	N/A	....	....	....	....	....	....	....	....
Revised Security Category	N/A	546.0	556.0	566.0	577.0	590.0	603.0	616.0	630.0	644.0
Revised Nonsecurity Category	N/A	501.0	510.0	520.0	530.0	541.0	553.0	566.0	578.0	590.0
President's proposed changes to discretionary limits in the 2013 Budget:										
Restore limits to the bipartisan agreement in Title I of the Budget Control Act of 2011:										

Table 14–1. OVERVIEW OF CHANGES TO DISCRETIONARY SPENDING LIMITS AND THE PRESIDENT'S PROPOSED LIMITS IN THE 2013 BUDGET—Continued

(Discretionary budget authority in billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Security Category	....	+686.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nonsecurity Category	....	+361.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Discretionary Category	N/A	N/A	+1,066.0	+1,086.0	+1,107.0	+1,131.0	+1,156.0	+1,182.0	+1,208.0	+1,234.0
Revised Security Category	N/A	–546.0	–556.0	–566.0	–577.0	–590.0	–603.0	–616.0	–630.0	–644.0
Revised Nonsecurity Category	N/A	–501.0	–510.0	–520.0	–530.0	–541.0	–553.0	–566.0	–578.0	–590.0
Anticipated adjustments pursuant to section 251(b)(2) of BBEDCA:										
OCO/GWOT:										
Security Category	N/A	+96.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Discretionary Category	N/A	N/A	+44.2	+44.2	+44.2	+44.2	+44.2	+44.2	+44.2	+44.2
Program Integrity:										
Nonsecurity Category	+0.4	+1.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Discretionary Category	N/A	N/A	+1.3	+1.5	+1.6	+1.7	+1.7	+1.8	+1.8	+1.8
Disaster Relief :										
Security Category	....	+5.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nonsecurity Category	....	+0.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Discretionary Category	N/A	N/A	....	....	....	....	....	....	....	....
New budget proposals:										
Reclassification of General Fund Surface Transportation Programs:										
Nonsecurity Category	–4.1	–4.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Discretionary Category	N/A	N/A	–4.2	–4.3	–4.4	–4.5	–4.6	–4.7	–4.7	–4.8
New Program Integrity adjustments for IRS and UI:										
Nonsecurity Category	....	+0.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Discretionary Category	N/A	N/A	+1.0	+1.4	+1.7	+2.0	+2.0	+2.0	+2.1	+2.2
President's proposed limits in the 2013 Budget:										
Security Category	816.9	788.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nonsecurity Category	359.9	358.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Discretionary Category	N/A	N/A	1,108.2	1,128.7	1,150.0	1,174.4	1,199.3	1,225.3	1,251.3	1,277.3
Revised Security Category	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Revised Nonsecurity Category	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

N/A = Not Applicable

used in this report remain at the levels specified in the January 18, 2012 Final Sequestration Report.

Table 14–1 summarizes the changes that have occurred to the discretionary caps since their reinstatement and subsequent redefinition in the BCA, including adjustments as a result of enacted 2012 appropriations. Table 14–1 also summarizes the changes to these limits proposed in the 2013 Budget, which are discussed in more detail in the adjustments section below.

Adjustments to discretionary limits.—The BBEDCA permits certain adjustments to the discretionary limits. After consultation with the Congressional Budget Office and the Congressional Budget Committees, section 251(b)(1) allows for adjustments due to changes in concepts and definitions in this Preview Report. Section 251(b)(2) authorizes certain adjustments after the enactment of appropriations. At this time, OMB includes no change in concepts and definitions or further adjustments under current law; therefore, as shown in Table 14–2, the caps in this Preview Report remain unchanged from those included in the Final Sequestration Report for FY 2012.

Proposed and anticipated adjustments to discretionary limits.—The President's Budget includes several proposals to revise the discretionary caps. The effects of these changes are reflected in Table 14–3.

To accompany these proposals, the 2013 Budget proposes savings across the discretionary, mandatory and revenue categories in an amount that would exceed the Joint Committee's minimum deficit reduction target and advocates enactment of those savings to replace the automatic reductions and restore the caps to the original definitions in Title I of the BCA.

The President's Budget also includes a proposed change in concepts and definitions that would reclassify as mandatory certain surface transportation programs that are currently funded from the General Fund. This change is also included on Table 14–3. Please see "Budgetary Treatment of Surface Transportation Infrastructure Funding" later in this chapter for a full discussion of the policy.

Several proposals included in the Budget, if enacted, would trigger adjustments to the discretionary caps. These anticipated adjustments, shown in Table 14–3, include the following:

Table 14–2. PREVIEW REPORT DISCRETIONARY SPENDING LIMITS
(Discretionary budget authority in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
SECURITY CATEGORY										
Final Sequestration Report Spending Limit	816,943	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
No changes										
Preview Report Spending Limit	816,943	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NONSECURITY CATEGORY										
Final Sequestration Report Spending Limit	363,536	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
No changes										
Preview Report Spending Limit	363,536	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DISCRETIONARY CATEGORY										
Final Sequestration Report Spending Limit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
No changes										
Preview Report Spending Limit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
REVISED SECURITY CATEGORY										
Final Sequestration Report Spending Limit	N/A	546,000	556,000	566,000	577,000	590,000	603,000	616,000	630,000	644,000
No changes										
Preview Report Spending Limit	N/A	546,000	556,000	566,000	577,000	590,000	603,000	616,000	630,000	644,000
REVISED NONSECURITY CATEGORY										
Final Sequestration Report Spending Limit	N/A	501,000	510,000	520,000	530,000	541,000	553,000	566,000	578,000	590,000
No changes										
Preview Report Spending Limit	N/A	501,000	510,000	520,000	530,000	541,000	553,000	566,000	578,000	590,000
TOTAL DISCRETIONARY SPENDING										
Enacted Budget Control Act and Update Report, Total Discretionary Spending	1,043,000	1,047,000	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
Final Sequestration Report, Total Discretionary Spending	1,180,479	1,047,000	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
Preview Report, Total Discretionary Spending	1,180,479	1,047,000	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000

N/A = Not Applicable

Table 14–3. PROPOSED CHANGES TO THE DISCRETIONARY SPENDING LIMITS
(Discretionary budget authority in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
SECURITY CATEGORY										
Preview Report Spending Limit	816,943	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Restore limits to the bipartisan agreement in Title I of the Budget Control Act of 2011	N/A	+686,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anticipated Security adjustments for the Final Sequestration Report:										
Anticipated adjustments pursuant to Section 251(b)(2)(A) of BBEDCA for OCO/GWOT	....	+96,727	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anticipated adjustments pursuant to Section 251(b)(2)(D) of BBEDCA for Disaster Relief	....	+5,481	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal, Anticipated Security adjustments	....	+102,208	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proposed Spending Limit	816,943	788,208	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Table 14–3. PROPOSED CHANGES TO THE DISCRETIONARY SPENDING LIMITS—Continued

(Discretionary budget authority in millions of dollars)

NONSECURITY CATEGORY

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Preview Report Spending Limit	363,536	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Restore limits to the bipartisan agreement in Title I of the Budget Control Act of 2011	N/A	+361,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proposed change in concepts and definitions for reclassification of General Fund Surface Transportation Program	–4,093	–4,166	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anticipated and proposed Nonsecurity adjustments for the Final Sequestration Report:										
Anticipated adjustments pursuant to Section 251(b)(2)(B) of BBEDCA for CDRs & Redeterminations	+140	+751	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anticipated adjustments pursuant to Section 251(b)(2)(C) of BBEDCA for HCFAC	+270	+299	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anticipated adjustments pursuant to Section 251(b)(2)(D) of BBEDCA for Disaster Relief	....	+167	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proposed adjustments for Internal Revenue Service Program Integrity	....	+691	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proposed adjustments Unemployment Insurance Program Integrity	....	+15	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal, Anticipated Nonsecurity adjustments	+410	+1,923	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proposed Spending Limit	359,853	358,757	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

DISCRETIONARY CATEGORY

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Preview Report Spending Limit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Restore limits to the bipartisan agreement in Title I of the Budget Control Act of 2011	N/A	N/A	+1,066,000	+1,086,000	+1,107,000	+1,131,000	+1,156,000	+1,182,000	+1,208,000	+1,234,000
Proposed change in concepts and definitions for reclassification of General Fund Surface Transportation Programs	N/A	N/A	–4,237	–4,316	–4,398	–4,481	–4,566	–4,651	–4,740	–4,831
Anticipated and Proposed Nonsecurity adjustments for the Final Sequestration Report:										
Anticipated adjustments pursuant to Section 251(b)(2)(A) of BBEDCA for OCO/GWOT	N/A	N/A	+44,159	+44,159	+44,159	+44,159	+44,159	+44,159	+44,159	+44,159
Anticipated adjustments pursuant to Section 251(b)(2)(B) of BBEDCA for CDRs & Redeterminations	N/A	N/A	+924	+1,123	+1,166	+1,309	+1,309	+1,309	+1,309	+1,309
Anticipated adjustments pursuant to Section 251(b)(2)(C) of BBEDCA for HCFAC	N/A	N/A	+329	+361	+395	+414	+434	+454	+475	+496
Proposed adjustments for Internal Revenue Service Program Integrity	N/A	N/A	+1,018	+1,327	+1,645	+1,975	+1,969	+2,011	+2,079	+2,148
Proposed adjustments Unemployment Insurance Program Integrity	N/A	N/A	+20	+25	+30	+35	+36	+37	+38	+39
Subtotal, Anticipated Discretionary adjustments	N/A	N/A	+46,450	+46,995	+47,395	+47,892	+47,907	+47,970	+48,060	+48,151
Proposed Spending Limit	N/A	N/A	1,108,213	1,128,697	1,149,997	1,174,411	1,199,341	1,225,319	1,251,320	1,277,320

REVISED SECURITY CATEGORY

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Preview Report Spending Limit	N/A	546,000	556,000	566,000	577,000	590,000	603,000	616,000	630,000	644,000
Restore limits to the bipartisan agreement in Title I of the Budget Control Act of 2011	N/A	–546,000	–556,000	–566,000	–577,000	–590,000	–603,000	–616,000	–630,000	–644,000
Proposed Spending Limit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

REVISED NONSECURITY CATEGORY

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Enacted Budget Control Act, Total Discretionary Spending	N/A	501,000	510,000	520,000	530,000	541,000	553,000	566,000	578,000	590,000
Restore limits to the bipartisan agreement in Title I of the Budget Control Act of 2011	N/A	–501,000	–510,000	–520,000	–530,000	–541,000	–553,000	–566,000	–578,000	–590,000
Proposed Spending Limit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

TOTAL DISCRETIONARY SPENDING

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Enacted Budget Control Act, Total Discretionary Spending	1,043,000	1,047,000	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
Preview Report, Total Discretionary Spending	1,180,479	1,047,000	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
2013 Budget Proposed, Total Discretionary Spending	1,176,796	1,146,965	1,108,213	1,128,679	1,149,997	1,174,411	1,199,341	1,225,319	1,251,320	1,277,320

N/A = Not Applicable

- *Emergency Appropriations and Overseas Contingency Operations/Global War on Terrorism (OCO/GWOT)*.— These adjustments are authorized by section 251(b)(2)(A) of the BBEDCA and include funding for amounts that Congress designates in law and the President subsequently so designates as being either an emergency requirement or for OCO/GWOT activities on an account-by-account basis. The 2012 Defense, Homeland Security, and State and Foreign Operations appropriations acts provided a total of $126.5 billion for OCO/GWOT purposes for 2012. The President's Budget does not propose any adjustments for emergency funding but does propose to place a cumulative ceiling on the OCO/GWOT cap adjustment of $450 billion over 2013-2021. The President's Budget includes $96.7 billion for OCO/GWOT activities in 2013. The Budget also includes a cap adjustment of $44.2 billion for OCO/GWOT activities for each year in 2014-2021. The 2014-2021 levels reflect placeholder annual amounts for a total funding level for OCO/GWOT activities but do not reflect specific policy decisions as to how the funds will ultimately be allocated across those years.
- *Continuing Disability Reviews (CDRs) and Redeterminations*.—Section 251(b)(2)(B) of the BBEDCA authorizes adjustment of the caps by the amounts appropriated for CDRs and redeterminations. The maximum cap adjustment in each year is limited to the levels of budget authority specified in the BBEDCA, provided that a base level of $273 million is provided for these purposes in the underlying appropriations bill before the adjustment. In the 2012 Labor, HHS, and Education Appropriations Act, $483 million was provided as a cap adjustment—an amount sufficient only to maintain activities at roughly their 2011 level, and $140 million below the permitted adjustment under BBEDCA. The President's Budget proposes to provide the additional $140 million in 2012 to increase funds for program integrity purposes to levels agreed to in section 251 of the BBEDCA. The Budget includes the full adjustment of $751 million in 2013 and for all years thereafter for these activities. Please see "Program Integrity Funding" in the President's Budget Reform Proposals section of this chapter for a full description of this and other program integrity efforts along with OMB's methodology in determining their effectiveness.
- *Health Care Fraud and Abuse Control (HCFAC)*.—Section 251(b)(2)(C) of the BBEDCA authorizes adjustment of the caps by amounts appropriated for HCFAC activities. The maximum HCFAC cap adjustment in each year is limited to the levels of budget authority specified in the BBEDCA, provided that a base level of $311 million for these purposes is provided in the underlying appropriations bill before the adjustment. Because the 2012 Labor, HHS, and Education Appropriations Act provided only $310 million of base funding (also an amount sufficient only to maintain activities at roughly their 2011 level), OMB's Final Sequestration Report for 2012 did not include an adjustment for this funding. The President's Budget proposes to increase the 2012 base funding to $311 million (which is fully offset) and to provide the additional $270 million in funding allowed by the cap adjustment agreed to in section 251 of the BBEDCA. The 2013 Budget also includes the full cap adjustment of $299 million in 2013 and for all years thereafter for these activities. Please see "Program Integrity Funding" in the President's Budget Reform Proposals section of this chapter for a full description of this and other program integrity efforts and OMB's methodology in determining their effectiveness.
- *Disaster Funding*.—Section 251(b)(2)(D) of the BBEDCA authorizes an adjustment to the caps for appropriations that are designated by the Congress as being for "disaster relief," which is defined as activities carried out pursuant to a determination under section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5122(2)). The BBEDCA sets a limit for the adjustment equal to the total of the average funding provided for disaster relief over the previous 10 years (excluding the highest and lowest years) plus any portion of the allowable adjustment (funding ceiling) for the previous year that was not appropriated (excluding the portion of the previous year's ceiling that was itself due to any unused amount from the year before). For the 2012 adjustment, OMB determined a preview estimate of $11,252 million. To date, $10,453 million in appropriations have been designated as for disaster relief in 2012, which is $799 million below the preview estimate. OMB will present its preview estimate for 2013 in its August Update Report. If no further appropriations enacted in 2012 are designated as being for disaster relief, OMB will add the $799 million underage to its preview estimate of the 2013 adjustment. The 2013 Budget includes a proposed cap adjustment of $5,648 billion for these activities. Please see "Disaster Relief Funding" in the President's Budget Reform Proposals section of this chapter for a full description of this adjustment and the Administration's 2013 Request.

In addition to these adjustments, the 2013 Budget proposes to amend section 251(b)(2) by adding two further adjustments related to program integrity efforts. These new adjustments are for Internal Revenue Service enforcement and operations support for tax activities, including tax compliance to address the Federal tax gap, and for in-person reemployment and eligibility assessments and unemployment insurance improper payment reviews of the Department of Labor. These new adjustments total $691 million for IRS and $15 million for Labor in 2013 and are included in Table 14–3 as adjustments to the proposed limits in all years. These adjustments, along with the estimated savings generated by the proposed increases above discretionary spending limits, are discussed in greater detail in "Program Integrity Funding" below.

II. BUDGET REFORM PROPOSALS

Joint Committee Reductions

The BCA raised the statutory debt limit and created a Joint Select Committee on Deficit Reduction to recommend legislation to reduce the Federal deficit by at least $1.5 trillion over the period 2012-2021. The Act also provided for a process to implement alternative spending reductions in the event that a Joint Committee bill achieving more than $1.2 trillion of deficit reduction was not enacted by January 15, 2012. This section describes the enforcement procedures that will be triggered by the Joint Committee's failure to recommend, and Congress's failure to enact, legislation providing the necessary savings, unless the Congress and the President agree to an alternative approach. The President's 2013 Budget proposes balanced deficit reduction measures that, in total, far exceed the $1.2 trillion minimum target. The Administration will work with Congress to enact sufficient deficit reduction to avoid the reductions otherwise required due to the failure of the Joint Committee process.

Revised Discretionary Caps.—The only immediate impact of the failure of the Joint Committee process is that the discretionary spending limits (caps) established in Title I of the BCA are redefined, as discussed in the Preview Report section of this chapter. As a result, the limits on budget authority apply to two categories (security and nonsecurity) of discretionary programs for 2013-2021. The revised security category consists of all discretionary programs in the defense function (050), which consists mainly of the Department of Defense-Military Programs. The revised non-security category consists of all other discretionary programs. In conjunction with the President's 2013 Budget proposals for deficit reduction exceeding $1.2 trillion and continued commitment to working with Congress to avoid the automatic reductions, the Administration proposes to restore the original security/nonsecurity definitions in the BBEDCA.

Enforcement.—The BCA requires that any shortfall in enacted savings from a Joint Committee bill below the $1.2 trillion minimum target must be made up by automatic reductions in discretionary spending and non-exempt mandatory spending. OMB is required to calculate the amount of the spending reduction required for each year, 2013-2021 by: (1) starting with the $1.2 trillion minimum target; (2) subtracting the amount of deficit reduction achieved by the enactment of a Joint Committee bill; (3) reducing the difference by 18 percent to account for debt service; and (4) dividing the result by nine. Because no savings were enacted, approximately $109 billion of annual spending reductions would be required. Half of these reductions would be allocated to defense function programs and half to non-defense programs. Within each category, the reductions would be prorated between discretionary programs and mandatory programs using the sum of the discretionary spending limit for that category and non-exempt mandatory outlays as the base.

For mandatory spending, the reductions in all years would be taken by an across-the-board sequestration of non-exempt programs, with limits imposed by special rules, such as a limit of 2 percent on the maximum reduction to certain Medicare spending. For discretionary programs, OMB would implement the reductions for 2014-2021 by reducing the discretionary cap for each discretionary category by the appropriate amount when OMB submits its sequestration preview report for that year.[1] In contrast, the discretionary reduction for 2013 would be taken by a sequestration of non-exempt discretionary spending on January 2, 2013. Of particular note, the President would have the authority to reallocate any reductions required for military personnel accounts to other Department of Defense discretionary accounts.

Program Integrity Funding

Critical programs such as Social Security, Medicare, and Medicaid, should be run efficiently and effectively. The Government made an estimated $115 billion in improper payments last year over all its programs. Although this amount reflects an improvement in both the payment error amount and the payment error rate, this level of error is unaffordable and unacceptable. The Administration, therefore, proposes to make significant investments in activities to ensure that taxpayer dollars are spent correctly, by expanding oversight activities in the largest benefit programs and increasing investments in tax compliance and enforcement activities. In addition, the Administration supports a number of legislative and administrative reforms in improper payments and debt collection. Many of these proposals will provide savings for the Government and taxpayers, and will support government-wide efforts to improve the management and oversight of Federal resources. If all of the legislative program integrity proposals are enacted, they are estimated to save at least $102.2 billion over 10 years.

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

Discretionary Program Integrity Initiatives.—There is solid and rigorous evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment. For every $1 spent by the Social Security Administration (SSA) on a disability review, $9 is saved in erroneous payments. Similarly, for every additional $1 spent by HHS on program integrity efforts,

[1] As provided in section 254 of BBEDCA, OMB submits its sequestration preview report with the President's Budget.

Table 14–4. MANDATORY AND RECEIPT SAVINGS FROM DISCRETIONARY PROGRAM INTEGRITY BASE FUNDING AND CAP ADJUSTMENTS

(Budget authority in millions of dollars)

	2012–2021 Cap Adjustment Proposal	Savings Achieved from Full Funding of Cap Adjustments											
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	11-Year Total
Enacted Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:													
SSA Program Integrity[1]	**Section 251(b)(2)(B) of BBEDCA**												
Enforcement Base	2,457	....	529	–55	–350	–647	–796	–839	–1,056	–1,186	–1,281	–946	–6,627
Allocation Adjustment	10,649	–39	–452	–2,183	–3,264	–4,343	–4,821	–5,133	–6,004	–6,655	–7,223	–7,818	–47,935
Health Care Fraud and Abuse Control Program[2]	**Section 251(b)(2)(C) of BBEDCA**												
Enforcement Base	2,800	–1	–495	–495	–495	–495	–495	–495	–495	–495	–495	....	–4,456
Allocation Adjustment	3,927	–405	–450	–496	–546	–599	–628	–659	–690	–722	–755	....	–5,950
Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:													
IRS Tax Enforcement[3]													
Enforcement Base[4]	97,072	....	–55,000	–55,000	–55,000	–55,000	–55,000	–55,000	–55,000	–55,000	–55,000	....	–495,000
Allocation Adjustment[5]	14,861	....	–421	–1,123	–2,251	–3,455	–4,694	–5,585	–6,200	–6,483	–6,661	–2,520	–39,393
Unemployment Insurance Improper Payments[6]													
Enforcement Base	540	....	–121	–243	–245	–248	–250	–254	–258	–262	–266	–137	–2,284
Allocation Adjustment	275	....	–22	–54	–77	–99	–121	–135	–141	–147	–153	–79	–1,028

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

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

[4] No official estimate for FY 2013 enforcement revenue has been produced, so this figure is an approximation and included only for illustrative purposes.

[5] The Internal Revenue Service (IRS) cap adjustment funds cost increases for existing enforcement initiatives and activities and new initiatives. The IRS enforcement program helps maintain the more than $2 trillion in taxes paid each year without direct enforcement measures. The cost increases will help maintain the base revenue while generating additional revenue through targeted program investments. The activities and new initiatives funded out of the cap adjustment will yield more than $39 billion in savings over ten years, with the savings increasing to nearly $44 billion over 10 years when the cap spending is assumed to be sustained in 2022. Aside from direct enforcement revenue, the deterrence impact of these activities suggests the potential for even greater savings.

[6] The maximum UI benefit period is typically 26 weeks unless temporary extended benefits programs are in effect. As a result, preventing an ineligible individual from collecting UI benefits would save at most a half year of benefits in the absence of extended benefits. The savings estimates are based on regular UI benefits and spread over two years, reflecting the fact that reemployment and eligibility assessments conducted late in the year affect individuals whose benefits would have continued into the subsequent fiscal year. As a result of the benefit savings, States will be able to reduce their unemployment taxes. The estimated revenue loss from the enforcement base is $626 million, net of the income tax offset. The estimated revenue loss from the increase in the cap adjustment is $247 million, net of the offset.

approximately $1.50 is saved or averted, and the IRS enforcement activities recoup roughly $5 or $6 for every $1 spent.

The BBEDCA, as amended by the BCA, recognizes that a multi-year strategy permitting agencies to pay closer attention to the risk of improper payments, commensurate with the large and growing costs of the programs administered by that agency, is a laudable goal. To support that goal, the BBEDCA provides for adjustments to the discretionary spending limits for additional funding for specific program integrity activities at SSA to reduce improper payments in the Social Security program and at the Department of Health and Human Services (HHS) to reduce improper payments in the Medicare and Medicaid programs. These adjustments are increases in the discretionary caps on budget authority through 2021 and are made only if appropriations bills increase funding for the specified program integrity purposes above specified base levels. This budget mechanism ensures that the additional funding does not supplant other Federal spending on these activities and is not diverted to other purposes.

In addition to fully supporting the adjustments enacted in the BBEDCA, the Administration proposes to amend the BBEDCA to enact similar adjustments at the Internal Revenue Service (IRS) for tax code enforcement and the Department of Labor (DOL) to reduce improper payments in the Unemployment Insurance (UI) program. As shown in Table 14-4, the enacted and proposed adjustments, which are assumed to be sustained in 2022, are estimated to result in more than $94 billion in lower spending and

Table 14–5. DISCRETIONARY PROGRAM INTEGRITY BASE FUNDING AND CAP ADJUSTMENTS
(Budget authority in millions of dollars)

	2011 Actual	2012 Enacted	Proposed								
			2013	2014	2015	2016	2017	2018	2019	2020	2021
Enacted Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:											
SSA Program Integrity:	Section 251(b)(2)(B) of BBEDCA										
Enforcement Base[1]	273	273	273	273	273	273	273	273	273	273	273
Cap Adjustments:											
BA	484	483	751	924	1,123	1,166	1,309	1,309	1,309	1,309	1,309
Outlays	484	483	751	924	1,123	1,166	1,309	1,309	1,309	1,309	1,309
Requested Additional Cap Funding for 2012:											
BA		*140*									
Outlays		*140*									
Health Care Fraud and Abuse Control Program:	Section 251(b)(2)(C) of BBEDCA										
Enforcement Base (Discretionary)	311	310	311	311	311	311	311	311	311	311	311
Cap Adjustments:											
BA	....	....	299	329	361	395	414	434	454	475	496
Outlays	....	....	299	329	361	395	414	434	454	475	496
Requested Additional Base & Cap Funding for 2012:											
BA		*271*									
Outlays		*271*									
Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:											
IRS Tax Enforcement:											
Enforcement Base[1]	9,569	9,246	9,487	9,753	10,039	10,355	10,714	11,092	11,493	11,876	12,263
Cap Adjustments:											
BA	....	....	691	1,018	1,328	1,645	1,975	1,968	2,010	2,079	2,147
Outlays	....	....	622	985	1,297	1,613	1,942	1,969	2,006	2,072	2,140
Unemployment Insurance Improper Payments:											
Enforcement Base	60	60	60	60	60	60	60	60	60	60	60
Cap Adjustments:											
BA	....	....	15	20	25	30	35	36	37	38	39
Outlays	....	....	15	20	25	30	35	36	37	38	39
TOTAL:											
Enforcement Base			10,131	10,397	10,683	10,999	11,358	11,736	12,137	12,520	12,907
Cap Adjustments:											
BA			1,756	2,291	2,837	3,236	3,733	3,747	3,810	3,901	3,991
Outlays			1,687	2,258	2,806	3,204	3,700	3,748	3,806	3,894	3,984

[1] For 2011 through 2022, numbers reflect spending on CDRs and SSI redeterminations. Limited funding in the 2011 allocation adjustment was also used for asset verification processes.

additional tax revenue over the next 10 years, with further savings after the 10-year period. Both the base level of funding and the additional funding that would trigger cap adjustments are listed in Table 14-5.

Enacted Adjustments Pursuant to the BBEDCA.—For the Social Security Administration, the $751 million cap adjustment (and base funding of $273 million) will allow SSA to conduct at least 650,000 Continuing Disability Reviews (CDRs) and at least 2.6 million Supplemental Security Income (SSI) redeterminations of eligibility in 2013. CDRs determine whether an individual continues to qualify for Disability Insurance (DI) or SSI. The funding provided for the SSA will enable the agency to work down a backlog of CDRs. As a result of increased funding provided by the cap adjustment, SSA would recoup more than $47.9 billion in gross savings in the DI and SSI programs, with additional savings after the ten-year period, according to estimates of SSA's Office of the Actuary. Taking into account the $10.6 billion cost of the cap adjustments, this would produce net savings of $37.3 billion. SSA is required by law to conduct CDRs for all beneficiaries who are receiving DI benefits, as well as all children under age 18 who are receiving SSI. SSI redeterminations are also required by law, but the frequency is not specified

in statute. The baseline assumes the likely frequency of program integrity activities, given the baseline funding levels. The Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the program integrity cap adjustment. Note that since the Consolidated Appropriations Act, 2012 (P.L. 112-74) did not fully fund the cap adjustment for 2012 for CDRs and redeterminations, the Administration is proposing to increase funding for this purpose by $140 million in 2012, up to the adjustment level of $623 million permitted in that year pursuant to the BBEDCA. This will save an additional $800 million when compared to the current enacted amount for 2012.

As stated above, the return on investment (ROI) for CDRs is approximately 9 to 1 in lifetime program savings. The ROI for redeterminations is approximately 6 to 1. The savings from one year of program integrity activities are realized over multiple years because some CDRs find that beneficiaries have medically improved and are capable of working, which may mean that they are no longer eligible to receive DI or SSI benefits. Redeterminations focus on an individual's eligibility for the means-tested SSI program and generally result in a revision of the individual's benefit level. However, the schedule of savings resulting from redeterminations will be different for the base funding and the cap adjustment. This is because redeterminations of eligibility can uncover underpayment errors as well as overpayment errors. SSI recipients are more likely to initiate a redetermination of eligibility if they believe there are underpayments, and these recipient-initiated redeterminations are included in the base. The estimated lifetime savings per dollar spent on CDRs and redeterminations was revised downward this year due to an interaction with a provision in the Affordable Care Act (ACA) that mandates Medicaid coverage beginning January 2014 for individuals under age 65 with income less than 133 percent of poverty. As a result of this provision, many SSI beneficiaries, who would otherwise lose Medicaid coverage due to a CDR or redetermination, would continue to be covered. In addition, some of these individuals will be eligible for the Medicaid ACA enhanced Federal matching rate, resulting in higher federal Medicaid costs.

The discretionary base and cap adjustment of $610 million for Health Care Fraud and Abuse Control (HCFAC) activities is designed to support efforts to reduce the Medicare improper payment rate by 50 percent, expand the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative, and to reduce Medicaid improper payment rates. The increased funding will also allow the Centers for Medicare and Medicaid Services (CMS) to deploy innovative efforts that focus on improving the analysis and application of data, including state-of-the-art predictive modeling capabilities, in order to prevent potentially wasteful, abusive, or fraudulent payments before they occur. The funding is to be allocated among CMS, the Health and Human Services Office of Inspector General, the Federal Bureau of Investigation, and Department of Justice. This $610 million will generate approximately $950 million in savings to Medicare and Medicaid in 2013, for a net deficit reduction of almost $340 million in 2013, reflecting prevention and recoupment of improper payments made to providers, as well as recoveries related to civil and criminal penalties. As with CDRs and redeterminations, since the Consolidated Appropriations Act, 2012 (P.L. 112-74) did not fully fund the base or the cap adjustment for 2012 for HCFAC, the Administration is proposing to increase the appropriation by $1 million (offset with a cut to CMS Program Management) to fully fund the base for HCFAC and by $270 million for the cap adjustment in 2012, up to the adjustment level permitted in that year pursuant to BBEDCA. This will save an additional $406 million when compared to the current enacted amount for 2012.

Proposed Adjustments to BBEDCA Limits.—For the IRS, the base funds current tax administration activities, including all tax enforcement and compliance program activities, in the Enforcement and Operations Support accounts. The additional $691 million cap adjustment funds new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's overall tax enforcement program, and also provides funding needed to implement recently-enacted tax law changes. As a result of base tax enforcement and compliance activities, the IRS will collect roughly $55 billion in 2013 in direct enforcement revenue. The IRS estimates that the proposed new 2013 enforcement initiatives will yield an additional $660 million in revenue from the work done in 2013. Further, once the initiatives' new staff are trained and become fully operational in 2015, the extra revenue brought in by the work done in each year will rise to at least $1.5 billion, or roughly $5 in additional revenue for every $1 in IRS expenses. New investments are also proposed beyond 2013, with cap adjustments in fiscal years 2014-2017 that include about $350 million in new revenue-producing enforcement initiatives each year. The activities and new initiatives funded out of the cap adjustments through 2021 will generate more than $39 billion in additional revenue over 10 years, with the revenue savings increasing to $44 billion over 10 years when the cap spending is assumed to be sustained in 2022. Taking into account the $14.9 billion cost of the cap adjustments, this would produce net savings of $24.5 billion. When the cap spending is assumed to be sustained in 2022, net savings of $26.6 billion would be realized. Notably, the ROI is likely understated because it only includes amounts received; it does not reflect the effect enhanced enforcement has on deterring non-compliance. This indirect deterrence helps to ensure the continued payment of well over $2 trillion in taxes paid each year without direct enforcement measures.

The Budget proposes a series of cap adjustments for the Department of Labor's (DOL) Unemployment Insurance (UI) State administrative grants program to reduce UI improper payments, a top management challenge identified by GAO and DOL's Inspector General. The proposal would expand what is now a $60 million Reemployment and Eligibility Assessment (REA) 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 $60 million base effort, if continued through 2021, would result in a savings in UI benefit payments of an estimated $2,284 million. These benefit savings would allow States to reduce their UI taxes by over $600 million (net of the income tax offset), reducing the burden on employers. The request for additional funding for in-person reemployment and eligibility assessments of claimants of unemployment compensation builds upon the success of a number of States in reducing improper payments and speeding reemployment by using these assessments. Because most unemployment claims are now filed by telephone or online, in-person assessments conducted in the One-Stop Career Centers can help determine the continued eligibility for benefits and the adequacy of work search, verify the identity of beneficiaries where there is suspicion of possible identity theft, and provide a referral to reemployment assistance for those who need additional help. The savings from this REA initiative are short-term because the maximum UI benefit period is limited, typically 26 weeks for regular State UI programs, although durations are currently longer in response to the elevated unemployment rate. The proposed cap adjustments would begin at $15 million in 2013 and total $275 million through 2021, providing total gross outlay savings estimated at $1.028 billion. As with the base funding for REAs, these outlay savings from the cap adjustments would permit States to reduce their UI taxes by an estimated $250 million (net of the income tax offset). Net savings for the proposal, including the cost of the cap adjustments, the mandatory outlay savings, and the revenue loss, totals $506 million.

In addition to the initiatives described above, the Budget includes administrative funds for the Partnership Fund for Program Integrity Innovation (Partnership Fund) to continue collaborating with State, local and other stakeholders to identify and pilot innovations to improve service delivery, payment accuracy, and administrative efficiency across Federal assistance programs administered by States—while protecting qualified beneficiaries. Already, the Partnership Fund has invested over $11 million in six pilot projects, which are estimated to lead to total savings of up to $200 million or more annually if the pilots are taken to scale – a return on investment 17 times.

By law, Partnership Fund pilots must save at least as much as they cost, in aggregate. As the potential return on investment estimated for current pilots demonstrates, savings could ultimately be greater. The Consolidated Appropriations Act, 2012 extended the availability through 2013 of $10 million from the original appropriation for the Partnership Fund that would have otherwise expired at the end of 2012.

Pilots launched to date include:

- The Department of the Treasury is assessing how State data could be leveraged to help validate earned income tax credit (EITC) eligibility to reduce error and increase participation of eligible families;
- The Department of Labor is working with States to test how access to data from financial institutions could help to detect overpayments in the Unemployment Insurance program;
- The Department of Agriculture is working with a State consortium to establish a National Accuracy Clearinghouse to strengthen program integrity and ensure continuity of Supplemental Nutrition Assistance Program (SNAP) and Disaster-SNAP benefits in disasters;
- The Department of the Treasury is partnering with States to determine how expanding the Treasury Offset Program (TOP) could help States collect delinquent debt that includes Federal dollars;
- The Centers for Medicare and Medicaid Services (CMS) and States are reducing administrative costs and promoting fraud detection in Medicaid provider enrollment through a shared services model for enrollment systems;
- CMS and States are working to better identify provider fraud and share fraud information through automated risk assessment tools using integrated data from State Medicaid programs and the Federal Medicare program.

Mandatory Program Integrity Initiatives.—Table 14-6 lays out the mandatory and receipt savings from other program integrity initiatives that are included in the 2013 Budget, beyond the expansion in resources resulting from the increases in discretionary funding discussed above. These savings total almost $7.9 billion over ten years. Almost 60 percent of these savings would be scored as PAYGO offsets because the legislation would authorize agencies to use new methods to reduce overpayments and combat fraud. These mandatory proposals to reduce improper payments and ensure agencies recover debt owed to the Federal Government reflect the importance of these issues to the Administration. Through these and other initiatives outlined in the Budget, the Administration can improve management efforts across the Federal Government.

Expand CMS Program Integrity Authority.—The Budget includes new Medicare and Medicaid program integrity proposals to help prevent fraud and abuse before they occur; detect fraud and abuse as early as possible; more comprehensively enforce penalties and other sanctions when fraud and abuse occur; provide greater flexibility to the Secretary of Health and Human Services to implement program integrity activities that allow for efficient use of resources and achieve high returns-on-investment; and promote integrity in Federal-State financing. For example, the Budget proposes to authorize civil monetary penalties or other intermediate sanctions for providers who do not update enrollment records, permit exclusion of individuals affiliated with entities sanctioned for fraudulent or other prohibited action from Federal health care programs, and affirm Medicaid's position as a payer of last resort when another entity is legally liable to pay claims for beneficiaries. Together, the CMS program

Table 14–6. MANDATORY AND RECEIPT SAVINGS FROM OTHER PROGRAM INTEGRITY INITIATIVES
(Receipts and outlays in millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	10-year total
Department of Health and Human Services:											
Expand CMS Program Integrity Authority [1]	–161	–236	–306	–336	–376	–386	–416	–451	–461	–487	–3,616
Department of the Treasury:											
Increase levy authority for payments to Medicare providers with delinquent tax debt (receipt effect)	–56	–66	–68	–70	–72	–74	–76	–77	–78	–80	–717
Provide authority to contact delinquent debtors via their cell phones	–12	–12	–12	–12	–12	–12	–12	–12	–12	–12	–120
Authorize Treasury to locate and recover assets of the United States and to retain a portion of amounts collected to pay for the cost of recovery	–2	–2	–2	–2	–2	–2	–2	–2	–2	–2	–20
Social Security Administration:											
Windfall Elimination Provision/Government Pension Offset Enforcement Provision (non-PAYGO)	13	20	17	–211	–456	–593	–626	–566	–529	–481	–3,412
Total, Mandatory and Receipt Savings	**–218**	**–296**	**–371**	**–631**	**–918**	**–1,067**	**–1,132**	**–1,108**	**–1,082**	**–1,062**	**–7,885**
PAYGO Savings	–231	–316	–388	–420	–462	–474	–506	–542	–553	–581	–4,473
Non-PAYGO Savings	13	20	17	–211	–456	–593	–626	–566	–529	–481	–3,412

[1] Savings estimates may not include all interactions.

integrity proposals are projected to save more than $3.6 billion over 10 years.

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

- *Increase levy authority for payments to Medicare providers with delinquent tax debt*.—The Budget proposes a change to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Medicare providers. Through the Federal Payment Levy Program, Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the Medicare Improvements for Patients and Providers Act of 2008, Medicare provider and supplier payments are included in the Federal Payment Levy Program, whereby Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider in order to collect delinquent tax debt. The Budget proposal will allow Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes. This proposal would result in PAYGO savings of $717 million over ten years.
- *Provide authority to contact delinquent debtors via their cell phones.*—The Budget proposes to clarify that the use of automatic dialing systems and prerecorded voice messages is allowed when contacting wireless phones in the collection of debt owed to or granted by the United States. In this time of fiscal constraint, the Administration believes that the Federal Government should ensure that all debt owed to the United States is collected as quickly and efficiently as possible and this provision could result in millions of defaulted debt being collected. While protections against abuse and harassment are appropriate, changing technology should not absolve these citizens from paying back the debt they owe their fellow citizens. The proposal would also allow the Federal Communications Commission to implement rules to protect consumers from being harassed and contacted unreasonably. This proposal would result in PAYGO savings of $120 million over 10 years.
- *Authorize Treasury to locate and recover assets of the United States and to retain a portion of amounts collected to pay for the cost of recovery*.—States and other entities hold assets in the name of the United States or in the name of departments, agencies and other subdivisions of the Federal Government. Many agencies are not recovering these assets due to lack of expertise and funding. Under current authority, Treasury collects delinquent debts owed to the United States and retains a portion of collections, which is the sole source of funding for its debt collection operations. While unclaimed Federal assets are generally not considered to be delinquent debts, Treasury's debt collection operations personnel have the skills and training to recover these assets. The Budget proposes to authorize Treasury to use its resources to recover assets of the United States. This proposal would result in PAYGO savings of $20 million over 10 years.

Social Security Windfall Elimination Provision/ Government Pension Offset Enforcement Provision.—The Budget re-proposes legislation that would improve reporting for non-covered pensions by including up to $50 million for administrative expenses to develop a mechanism so that the Social Security Administration could enforce the offsets for non-covered employment, Windfall Elimination Provision (WEP), and Government Pension Offset (GPO). The proposal would require State and local governments to provide information on their non-covered pension payments to SSA so that the agency can apply the WEP and GPO adjustments. Under current

law, the WEP and GPO adjustments are dependent on self-reported pension data and cannot be independently verified. This proposal would result in savings in the Old-Age, Survivors, and Disability Insurance program of more than $3.4 billion over 10 years, which would be scored as non-PAYGO savings because the program is off-budget.

Other Program Integrity Initiatives.—*Executive Order (EO) on Reducing Improper Payments*.—Executive Order 13520 on Reducing Improper Payments and Eliminating Waste in Federal Programs intensifies agency efforts to eliminate errors (including waste, fraud, and abuse) in the major programs (i.e., those programs with the highest dollar value or majority of improper payments) administered by the Federal Government. There are three overarching EO requirements:

1. Increase transparency and public participation;
2. Intensify agency accountability and coordination; and
3. Use incentives to improve contractor and State and local efforts in eliminating payment errors.

The EO provisions align with the President's program integrity initiatives by (1) ensuring that performance measures exist to assess (either annually or more frequently) whether these actions are reducing errors; (2) requiring agencies to submit a remediation plan when reduction targets for those programs with the high dollar value of improper payments are missed two consecutive years; and (3) initiating studies to recommend incentives for reducing error. Agencies are continuing to make progress in implementing EO 13520, and agency results can be found on the Federal Government's improper payments dashboard at *http://www.PaymentAccuracy.gov/*.

Leveraging Technology to Reduce Improper Payments.—Under this Administration, the Federal Government has focused on utilizing technology to address improper payments. Specifically, when the Administration took office, in many cases Federal agencies were either unaware of or unable to utilize technology in a manner that could help prevent and reduce improper payments. In addition, approximately 35 percent (or $40 billion) of all payment errors in FY 2011 were due to the inability to verify applicant information such as earnings, income, assets, or work status. This type of information is frequently available in data sources maintained by Federal agencies and third parties, but access to these sources is often limited due to legal, regulatory, or cost impediments.

Recognizing these barriers, the Administration has focused on enhancing agency use of technology to prevent improper payments in a number of ways, including the following activities. First, under EO 13520, work groups were created to analyze the role that cutting-edge forensic technologies could play in identifying and preventing fraud and other improper payments, as well as efforts that could be undertaken to improve data sharing between agencies. Second, the FY 2012 Budget requested $10 million and the Consolidated Appropriations Act, 2012 appropriated $10 million to support expansion of the "Do Not Pay" list—created by a Presidential memorandum issued June 18, 2010—and to add forensic fraud detection capabilities to the basic "Do Not Pay" portal. Specifically, the funding will help expand the number of databases and infrastructure of the "Do Not Pay" list, procure the detection technology and hire staff to support an operations center to analyze fraud patterns utilizing public and private-sector information, and refer potential issues to agency management and the relevant agency Inspector General. Third, to enhance data sharing, the President issued a memorandum that directed that a single portal be established through which agencies could check multiple eligibility databases before making an award or payment, and in November 2010, OMB released a memorandum that encouraged agencies to share high-value data that can be used to support important Administration initiatives, including preventing improper payments. The Administration is continuing to pursue opportunities to improve information sharing by developing or enhancing policy and guidance and developing legislative proposals to leverage available information and technology in determining benefit eligibility and other opportunities to prevent improper payments.

Social Security Workers' Compensation Enforcement Provision.—The 2013 Budget re-proposes a proposal from the 2012 Budget to improve the collection of data on the receipt of Workers' Compensation benefits. Similar to WEP/GPO (see description in the mandatory program integrity initiatives section above), this information is self-reported to SSA and is used to offset benefit amounts in the Social Security Disability Insurance and Supplemental Security Income programs. This proposal would develop a process to collect this information in a timely manner from States and private insurers to correctly offset Disability Insurance benefits and reduce SSI payments. The proposal includes $10 million to help fund States' implementation costs. While the proposal is expected to generate long-term savings based on a pilot previously performed by SSA's Inspector General, SSA has been unable to develop a savings estimate.

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

es in eligibility or terms of one program will have significant effects on participation in another program."

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

For more information on the specific program integrity funding proposals described in this section, see the *Cuts, Consolidations, and Savings* volume.

Disaster Relief Funding

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

As required by law, OMB transmitted a report on September 1, 2011 calculating that the ceiling on the potential adjustment for disaster relief funding is $11,252 million for fiscal year 2012.[2] As reflected in Table 14-7, the Congress has so far enacted a total of $10,453 million in 2012 that was designated for disaster relief. This is $799 million below the 2012 ceiling.

OMB must include in its August Update Report a preview estimate of the ceiling on the adjustment for disaster relief funding for fiscal year 2013. This estimate will contain an average funding calculation that incorporates nine years (2003 through 2011) using the definition of disaster relief from OMB's September 1, 2011 report and one year using the funding the Congress designates in 2012 as for disaster relief pursuant to the BBEDCA, excluding the highest and lowest years. If no further appropriations designated for disaster relief are enacted in 2012, OMB will add the remaining $799 million referenced above to OMB's preview estimate of the 2013 adjustment.

Table 14-7 also presents the 2013 request for funding to be designated by the Congress as being for disaster relief. At this time, the Administration is requesting $5,648 million in funding in two accounts to be designated as for disaster relief by the Congress: almost $5.5 billion in the Federal Emergency Management Agency's (FEMA's) Disaster Relief Fund to cover the costs of Presidentially-declared major disasters, including identified costs for previously declared catastrophic events (defined by FEMA as events with expected costs that total more than $500 million) and the predictable annual cost of non-catastrophic events expected to obligate in 2013, and $167 million in the Small Business Administration's Disaster Loans Program Account for administrative expenses. For these two programs, the Budget requests funding for both known needs based on expected costs of prior declared disasters and the typical average expenditures in these programs. This is consistent with past practice of requesting and funding these as part of regular appropriations bills. Also consistent with past practice, the 2013 request level does not seek to pre-fund anticipated needs in other programs arising out of disasters that have yet to occur, nor does the Budget seek funding for potential catastrophic needs. As additional information about the need to fund prior or future disasters becomes available, additional requests, in the form of either 2012 supplemental appropriations (designated as either disaster relief funding or emergency funding pursuant to BBEDCA) or budget amendments to the 2013 Budget, will be transmitted.

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

Limit on Discretionary Advance Appropriations

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

[2] For a full account of OMB's complete analysis and methodology, see "OMB Report on Disaster Relief Funding" on OMB's website: *http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/disaster_relief_report_sept2011.pdf*.

Table 14–7. FUNDS ENACTED IN 2012 AND FUNDS REQUESTED IN THE FISCAL YEAR 2013 BUDGET TO BE DESIGNATED FOR DISASTER RELIEF PURSUANT TO SECTION 251(b)(2)(D) OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985, AS AMENDED

(Budget authority in millions of dollars)

By Appropriations Subcommittee:	2012 Adjustment	2013 Base*	2013 Adjustment
Agriculture and Rural Development:			
Emergency Farm Loans	....	1	....
Emergency Conservation Program	122.7	....	....
Watershed and Flood Prevention Operations	215.9	....	....
Emergency Forest Restoration Program	28.4	....	....
Total	**367**	**1**	**.........**
Commerce, Justice, Science, and Related Agencies:			
Economic Development Assistance Programs	200	....	....
Energy and Water Development:			
Mississippi River and Tributaries [Corps of Engineers--Civil Works]	802	....	....
Operation and Maintenance [Corps of Engineers--Civil Works]	534	....	....
Flood Control and Coastal Emergencies [Corps of Engineers--Civil Works]	388	....	....
Construction [Corps of Engineers--Civil Works].	....	....	....
Total	**1,724**	**.........**	**.........**
Financial Services and General Government:			
SBA, Disaster Loans Program Account**	....	....	167
Homeland Security:			
Disaster Relief**	6,400	608	5,481
Disaster Assistance Direct Loan Program**	....	....	....
Total	**6,400**	**608**	**5,481**
Labor, HHS, Education:			
HHS, Children and Family Services Programs, Disaster Human Service Case Management**	....	2	....
Transportation and Housing:			
Emergency Relief Program	1,662	....	....
Community Development Fund**	100	....	....
Total	**1,762**	**.........**	**.........**
Total, Disaster Relief Funding	**10,453**	**611**	**5,648**
Total, 2012 Disaster Relief Ceiling for the Cap Adjustment	**11,252**		
Room Remaining Under the 2012 Ceiling for the Cap Adjustment	**+799**		

* These funds will be requested for disaster spending in 2013, but not designated as disaster relief pursuant to section 251(b)(2)(D) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.

** These accounts received funding for disaster spending in 2012 that was not designated as disaster relief pursuant to section 251(b)(2)(D) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, and was therefore subject to the discretionary spending limit in 2012. The SBA Disaster Loans Program Account received $117 million in administrative expenses, FEMA's Disaster Relief Fund received $700 million for non-major natural disasters, and FEMA's Disaster Assistance Direct Loan Program received $295,000 in subsidy appropriations for loans. In addition, HHS' Children and Family Services Programs received $2 million to provide referrals for human services case management during disasters and, of the appropriations provided to HUD's Community Development Fund, up to an additional $300 million was permitted to be used to fund disasters.

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

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

which the amounts of advance appropriations for such "straddle" programs are increased.

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

The 2013 Budget includes $28,858 million in advance appropriations for 2014 and freezes them at this level in subsequent years. (One exception is the elimination of 2015 through 2022 advances for the Department of Labor's dislocated worker program, because the Budget proposes a new mandatory program that would replace it.) In this way, the Budget does not employ this potential gimmick. Moreover, the Administration supports limiting advance appropriations to the proposed level through the congressional budget resolution for 2013, similar to the limits included as section 402 and 424 of S. Con. Res. 13, the concurrent resolution on the budget for 2010. Those limits applied only to the accounts explicitly specified in the joint explanatory statement of managers accompanying the budget resolution.

In order to account for the Administration's Elementary and Secondary Education Act reauthorization proposal, the 2013 Budget eliminates the $1,681 million advance appropriation that was previously in the School Improvement account (renamed the Education Improvement account) and replaces it with corresponding increases to advance appropriations in the accounts for Education for the Disadvantaged ($841 million, renamed Accelerating Achievement and Ensuring Equity) and Special Education ($841 million). Total advance appropriations for 2014 in the Department of Education remain unchanged at $22,597 million, which maintains an increase to the Special Education advance appropriation included in the Consolidated Appropriations Act, 2012 (P.L. 112-74). However, that increase did not require a growth in total advance appropriations for 2013 because the 2012 Act did not partially fund Labor's Office of Job Corps with its customary $691 million advance appropriation. Rather, the Act eliminated the advance appropriation for the Office of Job Corps, funded the program instead entirely with 2012 appropriations, and provided Special Education with a commensurate increase to the program's 2013 advance appropriation from $8,592 million to $9,283 million.

In addition, the Administration would allow advance appropriations for the Corporation for Public Broadcasting, which is typically enacted two years in advance, and for Veterans Medical Care, as is required by the Veterans Health Care Budget Reform and Transparency Act (P.L. 111-81). The advance appropriations funding level for the veterans medical care accounts (comprising Medical Services, Medical Support and Compliance, and Medical Facilities) is largely determined by the Enrollee Health Care Projection Model of the Department of Veterans Affairs. This model covers more than 80 percent of the total medical care funding requirement. The remaining funding requirement is estimated based on other models and assumptions for services such as long-term care. To aid the Government Accountability Office in meeting a requirement contained in P.L. 111-81 to develop a report on the adequacy of the Administration's advance appropriations request within 120 days of the release of the President's Budget, the Department of Veterans Affairs has included detailed information in its Congressional Budget Justifications about the overall 2014 VA medical care funding requirement.

Another advance appropriation that the Administration is proposing to be considered outside of the limit on advance appropriations is for full funding of specific satellite procurement programs at the Department of Defense (DOD). DOD has implemented an innovative strategy for buying satellites, called Evolutionary Acquisition for Space Efficiency (EASE). EASE will reduce costs and improve the stability of the space industrial base. The use of advance appropriations – instead of incremental funding – for the two relevant satellite programs will also greatly reduce the significant programmatic and budgetary uncertainties often associated with incremental funding. Moreover, advance appropriations will help ensure transparency of costs and full funding, both of which are needed for the EASE initiative to succeed. Advance appropriations are being requested for two satellite programs, both in the Missile Procurement, Air Force account – the Advanced Extremely High Frequency (AEHF) satellite and the Space-Based Infrared Systems (SBIRS) satellite. A regular appropriation is requested for the AEHF procurement in 2013 and advance appropriations are requested for 2014 through 2017. Similarly, a regular appropriation is requested for the SBIRS procurement in 2013 and advance appropriations are requested for SBIRS for 2014 through 2018.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2011 or for which the Budget requests advance appropriations for 2014 and beyond, please refer to the Advance Appropriations chapter that can be found in the *Appendix*.

Budgetary Treatment of Surface Transportation Infrastructure Funding

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

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

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

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

The 2013 Budget includes structural reforms to surface transportation programs that mirror the recommendation of the Fiscal Commission. These reforms help ensure that when crafting a surface transportation plan, the President and the Congress will work together to ensure that funding increases do not increase the deficit.

The Budget uses savings from ramping down overseas military operations to offset the cost of the President's six-year surface transportation proposal beyond what the current funding mechanism can cover. Beyond the reauthorization window (2019-2022), the Budget assumes that spending returns to baseline levels generated based on what was enacted in 2012. This reflects the assumption that while the Administration has identified a "pay for" that will support the pending reauthorization, those savings will not be available forever. Policy-makers will need to work together to develop other fiscally responsible solutions beyond the six-year reauthorization period.

The Budget also includes a surface transportation reauthorization proposal that would broaden the scope of programs included under the Trust Fund umbrella: the HTF is renamed the Transportation Trust Fund (TTF), and supports additional highway safety and transit programs, as well as passenger rail programs and multimodal programs administered by the Department of Transportation. The mechanics of the 2013 proposal are described in greater detail below. Generally speaking:

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

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

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

The proposal for surface transportation and the corresponding structural changes differ from the proposal presented in the 2012 Budget in several substantive ways. First, while the Administration continues to propose $50 billion in immediate transportation spending, that spending is presented in the 2012 column of the Budget and is not incorporated into the new surface transportation framework. The presentation is consistent with the way the Administration proposed this spending in the American Jobs Act. Also, consistent with the proposal included in the American Jobs Act, the Budget requests a multi-sector infrastructure bank proposal that is not incorporated into the surface transportation framework. Finally, as discussed above, the Administration proposes to pay for the reauthorization proposal by using savings from ramping down overseas military operations.

As a matter of policy, the Administration believes that the proceeds from existing Highway Trust Fund excise taxes should be dedicated solely to the highway and transit accounts; no existing excise taxes would be diverted to rail or other activities. Rather, under the Administration's proposal, savings from the drawdown of overseas military operations savings would offset General Fund transfers that would eliminate the projected shortfall in the Highway and Mass Transit accounts, cover increased funding for highways and mass transit, and finance passenger rail and Multimodal activities.

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

Account-by-Account Budgetary Treatment.—As under current law, the Budget proposes the enactment of contract authority for the Transportation Trust Fund for

each year, 2013-2018, totaling $476 billion over six years. The contract authority is to be enacted by the reauthorization bill and, as under current law, will be classified as mandatory.

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

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

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

- For accounts that are presently classified as generating discretionary budget authority and outlays, but that the Administration proposes to incorporate into the TTF (for example the Federal Transit Administration's Capital Investment Grants account), the Budget includes separate schedules that:
  - Show baseline budget authority and outlays as discretionary, consistent with current classifications.
  - Reclassify baseline budget authority and outlays as mandatory in all years, including 2011 and 2012, for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - Show adjustments (subject to PAYGO) to the reclassified mandatory amounts so that the proposal properly accounts for requested program growth in the new trust fund accounts.
- For accounts that are presently funded from the HTF and that the Administration proposes to incorporate into the TTF (for example, Federal-Aid Highways), the Budget includes separate schedules that:
  - Show baseline levels of mandatory contract authority and discretionary outlays resulting from obligation limitations contained in appropriations acts. Since SAFETEA-LU is only currently extended through March 31, 2012, the contract authority is frozen in all years subsequent to that extension, consistent with current scorekeeping conventions.
  - Reclassify discretionary outlays from obligation limitations as mandatory outlays from mandatory contract authority for the 2012 estimate and create a new baseline of contract authority that is equal to the previous inflated discretionary baseline for obligation limitations.
  - Reclassify 2011 enacted budget authority and outlays as mandatory for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - Show proposed mandatory spending above or below the baseline as PAYGO costs or savings.
- For proposed new accounts supported by the TTF (for example, the Federal Railroad Administration's Network Development account), the Budget includes a schedule that includes new mandatory contract authority and outlays requested to support those programs.

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

- Office of the Secretary, National Infrastructure Investments.
- Federal Railroad Administration (FRA): Operating Subsidy Grants to the National Railroad Passenger Corporation; Capital and Debt Service Grants to the National Railroad Passenger Corporation; Capital Assistance for High-Speed Rail Corridors.
- National Highway Traffic Safety Administration (NHTSA): Operations and Research.
- Federal Transit Administration (FTA): Administrative Expenses; Capital Investment Grants; Research and University Research Centers; Grants for Energy Efficiency and Greenhouse Gas Reductions.

Amounts in these accounts total $4.1 billion in discretionary budget authority for 2012. The baseline levels for these amounts are what constitute the discretionary cap adjustment noted earlier in the chapter in the Preview Report. Note that in a number of cases, activities captured in these accounts are requested under a new account in the Administration's reauthorization proposal. For example, activities under the two existing Amtrak accounts are requested as part of the Federal Railroad Administration's new System Preservation account. In those instances, the PAYGO impact of the Administration's reauthorization proposal must be calculated at the aggregate level rather than the individual account level (i.e., the change between the reclassified baseline amounts in the existing General Fund accounts and the proposed levels in the successor ac-count).

Outyear Assumptions.—Beyond the reauthorization proposal, the Budget assumes that contract authority will return to baseline levels, as calculated from 2012, for 2019 and thereafter. This reflects that while the Administration has identified savings to offset the presently-pending reauthorization, policy-makers will need to

develop alternative fiscally responsible solutions for 2019 and beyond.

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

- The Highway Account subsumes the highway and highway safety activities currently in the Highway Trust Fund plus the NHTSA Operations and Research account, currently a General Fund account.
- The Mass Transit Account subsumes the transit activities currently in the Highway Trust Fund plus four FTA accounts currently financed by the General Fund: Capital Investment Grants; Research and University Research Centers; Grants for Energy Efficiency and Greenhouse Gas Reductions; and Administrative Expenses.
- The Multimodal Account focuses on developing high-speed rail and also subsumes activities currently financed from the General Fund: Capital Assistance for High-Speed Rail Corridors; Capital and Debt service grants to AMTRAK; and Operating Grants to AMTRAK. It also includes a multimodal, competitive program that the Department currently operates: National Infrastructure Investments (TIGER) grants.

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

Offsets.—The President is committed to working with Congress on a bipartisan basis to ensure that funding increases for surface transportation do not increase the deficit. The 2013 Budget fully pays for the 2013-2018 reauthorization proposal by applying a portion of the savings from the drawdown of the wars overseas to cover outlays associated with: 1) new spending associated with the Administration's six-year surface transportation reauthorization proposal, and 2) shortfalls between revenue and spending that exist under current law for the same time period. As discussed above, the Budget proposes to make surface transportation spending subject to PAYGO rules, and specific savings are identified to cover the PAYGO costs.

Because the Budget retains the Trust Fund concept, fully-offset transfers from the General Fund to the TTF are reflected to maintain TTF solvency through the reauthorization period and to cover outlays generated from the six-year proposal but projected to occur beyond the reauthorization period. Offsets from the drawdown of overseas military operations are only used to cover the structural deficit for six years and all new outlays associated with the reauthorization proposal for the 10-year window. Since the Administration's proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2012 and spending again outstrips revenue.

Explanation of the Administration's Proposal and PAYGO Treatment.—Table 14-8 details the Administration's surface transportation reauthorization proposal.

- Line one illustrates the proposed contract authority levels for accounts under the TTF, including accounts presently reflected as General Fund budget authority, HTF-funded accounts (hybrid treatment), and new activities. Line two illustrates outlay estimates associated with that contract authority, as well as prior-year outlays from the HTF.
- Line three illustrates the baseline level of budgetary resources for all activities proposed under the TTF. For comparability, those budgetary resources that were previously classified as discretionary are here displayed as mandatory. Line four illustrates the outlay estimates associated with those budgetary resources, including prior year outlays from the HTF.
- Lines five and six calculate the mandatory budget authority and outlay changes—the increases over the baseline levels. As previously noted and indicated in this line, after this reauthorization period, spending falls back to baseline levels. Line six is the amount that would be subject to PAYGO.

Table 14–8. FUNDING, SPENDING, REVENUES, AND DEPOSITS ASSOCIATED WITH THE TRANSPORTATION TRUST FUND

(Dollars in billions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	6-year	10-year
1. Funding for the Transportation Trust Fund (Contract Authority)	58	71	77	84	90	96	60	62	63	64	**476**	**724**
2. Estimated outlays	54	59	66	72	78	84	83	76	72	71	**412**	**714**
3. Baseline funding (Contract Authority and Budget Authority)	54	55	56	57	58	59	60	62	63	64	**341**	**590**
4. Estimated baseline outlays	53	56	57	58	59	60	61	61	62	62	**343**	**589**
5. Proposed funding increase	3	16	21	26	32	37	....	....	....	....	**135**	**135**
6. Estimated outlay increase	0	4	9	13	18	24	22	15	11	8	**69**	**125**
7. Deposits into the Transportation Trust Fund	78	79	80	81	81	82	45	45	46	47	**481**	**663**
8. Highway Trust Fund revenues (at current rates)	39	40	41	42	43	44	45	45	46	47	**250**	**432**
9. Overseas Contingency Operations (OCO) Reduction Savings	38	38	38	38	38	38	....	....	....	....	**231**	**231**
10. Transportation Trust Fund annual cash flow	24	19	14	9	4	–1	–39	–31	–26	–24	**69**	**(51)**
11. Transportation Trust Fund end-of-year balances	36	55	69	78	81	80	41	10	–16	–40		

- Line seven indicates the assumed deposits to the Transportation Trust Fund necessary to liquidate outlays. That figure is made up of two components: estimates associated with current law receipts (line eight) to the Highway Trust Fund and offset transfers needed to maintain Trust Fund solvency during the six-year reauthorization and cover outlays from this reauthorization that are expected to occur after 2018 (line nine).
- Line ten illustrates the net cash flow to the TTF assumed in each year (revenues minus outlays).
- Line eleven illustrates the notional cash balances of the TTF over the ten-year period. As mentioned above, offsets from the drawdown of overseas military operations only cover the structural deficit for six years and new outlays associated with the reauthorization proposal; since the Administration's proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2012 and structural deficits return. In each year of the reauthorization period, the balances exceed the $8 billion minimally needed to ensure solvency.

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

First, congressional scorekeeping must accommodate the initial shift from discretionary to mandatory outlays. As illustrated by line four, the activities that the administration proposes to incorporate in the TTF as mandatory outlays would generate discretionary outlays under current law totaling an estimated $347 billion over six years. If those outlays are reclassified, they should not be added to the PAYGO cost of any legislation by virtue of the fact that they are new to the mandatory side of the budget. Rather, the mandatory baseline should be adjusted to include those outlays that would occur under current law—as the 2013 Budget does—and calculate any changes from that baseline. Without this initial accommodation, scorekeeping rules would overstate the cost of legislation intended to reform the hybrid system.

Second, to reflect the true cost of fully funding the surface transportation program for the six-year reauthorization period, any offset should be required to cover: 1) the difference between current law revenues and baseline HTF outlays ($63 billion) to restore solvency to the existing HTF, 2) any reclassification of baseline activities currently financed by the General Fund ($19 billion in the Administration's proposal), and 3) all program increases relative to the baseline ($69 billion, shown in Table 14-8). While PAYGO rules only require an offset to spending above the BBEDCA baseline, the Administration believes that for both scoring purposes and Trust Fund solvency the offset should cover both proposed spending increases and the gap between baseline spending and current law revenue. As discussed earlier, the outyears beyond the reauthorization, 2019-2022, lower surface transportation spending to baseline levels as calculated from 2012 to illustrate that after the current reauthorization, the structural deficit returns and the Transportation Trust Fund faces insolvency. As a matter of policy, the Administration believes that the spending levels under its reauthorization proposal should be the starting point for subsequent authorizations, but policy-makers will again have to confront the gap between spending and revenue.

Pell Grants

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

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

- The Pell program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, where the size of the individual award and the number of eligible applicants together determine the cost in any given year. Specifically, Pell Grant costs depend on the maximum award set in statute, the number of eligible applicants, and the award for which those applicants are eligible based on their needs and costs of attendance. The maximum Pell award for the academic year 2013-14 is expected to be $5,635, of which $4,860 will be established in the annual appropriations act and the remaining $775 is provided automatically by the College Cost Reduction and Access Act (CCRAA), as amended.
- The costs of each Pell grant are funded by discretionary budget authority provided in annual appropriations acts, along with mandatory budget authority provided by the CCRAA, as amended, the BCA, and changes to the Higher Education Act of 1965 made in the 2011 and 2012 appropriations acts. There is no programmatic difference between the mandatory and discretionary funding.
- If valid applicants are more numerous than expected, or if these applicants are eligible for higher awards, the Pell program will cost more than the appropriations provided, and vice versa. If the costs during one academic year are higher than expected, the Department of Education funds the extra costs with the subsequent year's appropriation.[3]

[3] This ability to "borrow" from a subsequent appropriation is unique to the Pell program. It comes about for two reasons. First, like many education programs, Pell is "forward-funded"—the budget authority enacted in the fall of one year is intended for the subsequent academic year, which begins in the following July. Second, even though the amount of funding is predicated on the expected cost of Pell during one academic year, the money is made legally available for the full 24-month period covering the current fiscal year and the subsequent fiscal year. This means that, if the funding for an academic year proves inadequate, the following year's appropriation will legally be available to cover the funding shortage for the first academic year. The 2013 appropriation, for instance, will support the 2013-2014 academic year beginning in July 2013 but will become available in October 2012 and can therefore help cover any shortages that may arise in funding for the 2012-2013 academic year.

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

Given the nature of the program, it is reasonable to consider Pell Grants an individual entitlement for purposes of budget analysis and enforcement, and in the 2010 and 2011 Budgets, the Administration requested that Pell Grants be converted into a mandatory program. Congress has chosen to continue treating the portion funded in annual appropriations acts as discretionary, counting that budget authority for Pell Grants against the discretionary spending caps pursuant to section 251 of the BBEDCA and appropriations allocations established annually under §302 of the Congressional Budget Act. As in 2012, the Budget maintains this discretionary treatment.

The total cost of Pell Grants can fluctuate from year to year, even with no change in the maximum Pell Grant award. In addition, since 2009 the program has relied on temporary mandatory or emergency appropriations to fund the program well above the level that could have been provided by the regular discretionary appropriation. In 2014, those extra mandatory funds in large part run out, and the program faces a dramatic funding gap (see Table 14-9).

Administration policy is to fully fund the maximum award. This Budget provides sufficient resources to fully fund the $5,635 maximum award in the 2013-2014 award year, and to fully fund the 2014-2015 award year. The Budget provides $22.8 billion in discretionary budget authority in 2013, the same level of discretionary budget authority provided in 2012. Level-funding Pell in 2013 provides $1.5 billion more than is needed to fully fund the program in the 2013-14 award year, thanks to mandatory funding provided in prior legislation. This surplus budget authority serves as the first step in addressing the funding cliff in 2014. Cutting the budget authority in Pell to only the level needed to fund the program in 2013 would have a doubly detrimental impact on the 2014 cliff; it would reduce the budget authority carried forward from 2013, while simultaneously reducing the discretionary base funding level in the program.

In addition, this budget makes a down payment toward addressing the long term Pell gap, financed by three reforms in the student loan programs, discussed in the *Appendix* to the 2013 President's Budget: expanding and reforming the Perkins loan program, limiting the in-school interest subsidy for subsidized Stafford loans to 150 percent of the normal program length, and reducing excessive payments to guaranty agencies who rehabilitate student loans. The total mandatory budget authority and outlay savings from the student loan programs amount to a $14.0 billion, 10-year reduction. This savings allows $14.8 billion in budget authority to be appropriated as part of proposed authorizing legislation, with outlays of $14.0 billion during the budget window, toward paying for the discretionary portion of Pell. This is analogous to SAFRA's one-time $13.5 billion appropriation for discretionary Pell enacted in March 2010, which was financed by mandatory savings in student loan programs. With minimal adjustments to budget authority, the proposed Pell package could also be enacted as part of an appropriations act within Congressional scorekeeping rules, as was done for 2011 and 2012.

These important student aid reforms will provide full funding of Pell through the 2014-15 award year. The Administration strongly believes that, in order to avoid the risk of deep and unnecessary cuts in the Pell Grant program, Congress should enact legislation in the fiscal year 2013 budget process to cover the 2014-2015 funding gap (currently estimated at $6.4 billion if Pell is funded in 2013 at the same level of discretionary budget authority provided in 2012). If Congress waits until fiscal year

Table 14–9. EFFECT OF STUDENT AID PROPOSALS ON DISCRETIONARY PELL FUNDING GAP
(Budget Authority in Billions of Dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013–2022
Full Funding, Discretionary Pell	36.5	36.6	28.9	31.3	31.6	31.9	32.2	32.5	32.8	33.3	33.7	34.1	
Mandatory Funding Previously Provided	–13.5	–13.8	–7.6	–0.6	....	....	–1.6	–1.4	–1.4	–1.4	–1.1	–1.2	
Discretionary Need	23.0	22.8	21.3	30.7	31.6	31.9	30.6	31.1	31.4	31.8	32.5	32.9	
Fund Pell at 2013 Full Funding Estimate	23.0	22.8	21.3	21.3	21.3	21.3	21.3	21.3	21.3	21.3	21.3	21.3	
Discretionary Funding Gap			....	–9.4	–10.3	–10.6	–9.3	–9.8	–10.1	–10.5	–11.2	–11.6	–92.8
Fund Pell at 2012 Enacted Level			1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	15.2
Remaining Funding Gap			1.5	–7.9	–8.8	–9.0	–7.8	–8.3	–8.6	–9.0	–9.7	–10.0	–77.6
Carry Forward 2013 BA Request to Help Fund 2014			–1.5	1.5	....	....	....	....	....	....	....	....	....
Remaining Funding Gap			....	–6.4	–8.8	–9.0	–7.8	–8.3	–8.6	–9.0	–9.7	–10.0	–77.6
Proposed Mandatory Funding in the Budget			....	6.4	3.7	....	....	0.9	0.9	0.9	1.0	1.0	14.8
Remaining Funding Gap			....	....	–5.1	–9.0	–7.8	–7.4	–7.7	–8.1	–8.7	–9.0	–62.8

2014 to confront a 2014-15 Pell Grant funding gap, and if Congress again concludes – as it did in the 2012 appropriations process – that savings from the subsequent fiscal year cannot be used to cover a current-year problem, then deep reductions in Pell Grants will likely be required in 2014. These reductions will be much more severe than the reductions needed if Congress tackles the 2014-15 problem in fiscal year 2013, using savings from multiple years. In addition, if Congress delays, it will not be able to use savings from student aid reforms that are deferred in time in order to allow institutions to adjust or to protect students' settled expectations. The result could be a decision not to implement justified program changes, because they will not yield savings that meet an immediate need or a decision to impose hardships for students and schools that could have been avoided by acting sooner. The Administration is therefore committed to working with Congress to achieve two goals: first, enacting in fiscal year 2013 the changes needed to fully fund Pell through the 2014-15 award year; and second, in 2013 or 2014, making the difficult choices needed to ensure the long term stability of this vital program.

Postal Service Reforms

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

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

Expedited Rescission

In each of his first two budgets, the President put forward more than 120 terminations, reductions, and savings totaling approximately $20 billion in each year. In 2012, the Budget proposed more than 200 terminations, reductions, and savings, totaling approximately $30 billion in savings. This year, the Administration is proposing cuts and consolidations across the government; when combined with the successful proposals of the last three years, these cuts and consolidations support the structural reductions necessary in order to live within the BCA discretionary caps and promote more effective use of mandatory funding.

In order to make it easier to eliminate unnecessary spending, the Administration requests that Congress enact the President's proposal for expedited rescission, transmitted May 24, 2010. That legislation would create an important tool for reducing unneeded funding. In short, the bill would provide the President with additional authority to propose a package of rescissions that would then receive expedited consideration in Congress and a guaranteed up-or-down vote.

The proposal includes several components:

- *Scope.*—Under this new authority, the President can propose fast-track consideration of rescissions of discretionary and non-entitlement mandatory spending.[4] The President is limited to proposing changes that reduce funding levels and cannot use this authority to propose other changes in law, including new transfer authority, supplemental funding, or changes in authorizing legislation. The fast-track process is thus limited only to simple funding reductions, for which a straight up-or-down vote is desirable.
- *Proposing a rescission package.*—After enactment of funding, the President has 45 days during which Congress is in session (excluding weekends and national holidays) to decide whether to submit a rescission package using this expedited procedure. The President is also limited to a single package of rescissions per bill under this procedure, and the requested rescissions must be limited to provisions in that bill.[5]
- *Congressional procedure.*—A rescission package submitted under this authority receives fast-track consideration in Congress. Debate is limited in both houses and the package is guaranteed an up-or-down vote without amendment. The package is first introduced and considered in the House and, if approved there, is taken up in the Senate. From the package's introduction to its final vote in the Senate, the process will take no more than 25 days. Note that, while Congress cannot amend the package, the proposal enables Congress to omit from the bill any proposed rescission that it believes goes beyond the scope allowed.

[4] In almost every case, "non-entitlement mandatory funding" exists where an agency has the authority to spend the proceeds of fees or other offsetting collections to run the agency. The spending in question is generally indistinguishable from other funding for administering the Government that is typically provided through discretionary appropriations.

[5] There is one exception to the packaging rule: when a single appropriations bill includes funding that is in the jurisdiction of more than one appropriations subcommittee such as in an omnibus appropriations bill. In that case, the President may submit up to two packages.

- *Withholding funding.*—Following submission of a rescission request using this expedited procedure, the President may withhold funding for up to 25 days, after which the funding must be released. This ensures that agencies do not obligate funds before Congress has had an opportunity to consider the rescission package.

In sum, the proposal provides the President with important, but limited, powers that will allow the President and Congress to work together more effectively to eliminate unnecessary funding. Knowing this procedure exists may also discourage policymakers from providing such funding in the first place.

The proposal is crafted in a way that preserves the constitutional balance of power between the President and Congress. In 1996, Congress granted the President "line item veto" power over certain spending and tax bills, allowing the President to use his veto authority to strip out select provisions of legislation while signing the rest into law. The Supreme Court found this to violate the Constitutional procedure for presenting a bill to the President for approval or veto of the entire bill. The Administration's proposal is, however, fundamentally different. Under the proposal, Congress, which is empowered to set its own rules, changes those rules for rescission packages proposed by the President—using well-established fast-track procedures. Most importantly, rescissions only occur if Congress affirmatively enacts them into law. In other words, the proposal does not expand the Presidential veto authority in any way.

The proposal also preserves the President's two existing authorities for proposing rescissions. First, the President retains the Constitutional authority to recommend legislation such as cancellation packages to be considered under regular order in Congress. Second, the President retains the power to recommend rescissions under the procedure already established under the Impoundment Control Act of 1974. This existing authority provides more limited fast-track protections to a Presidential rescission package than what the Administration has proposed and, specifically, allows committee and floor amendments and so does not guarantee a clean up-or-down vote on a package submitted by the President.

The President's proposal lifts procedural barriers; however, the President and Congress will still have to make the difficult choices to cut back unnecessary funding. Furthermore, restoring fiscal sustainability in the medium and long term will require not only targeting unnecessary funding in specific programs, which the proposal aids, but also making larger choices about overall budget priorities and revenue levels.

Debt Trigger Proposal

On September 23, 2011, the Administration sent to Congress the President's Plan for Economic Growth and Deficit Reduction. Included within the proposed legislation was a budget reform, the Debt Reduction Act of 2011, which would require additional debt reduction if debt as a percent of GDP strays from a downward glide path. The main features of this proposal are summarized below.

Debt Reduction Goal.—Under the proposal, debt as a percent of GDP would be required to decline by at least one percentage point each five years. Debt is defined for this purpose as debt held by the public, net of financial assets. As explained in the "Debt Net of Financial Assets" section of this chapter, this is a better measure of the Government's net draw on private credit markets and, thus, is more useful for setting debt reduction goals. If baseline debt fails to decline along this glide path, Congress would be required to enact additional debt reduction to reduce debt back to the required levels. Failure to enact sufficient savings would trigger an automatic reduction of spending and tax expenditures.

Debt Triggers.—The proposal requires OMB to set permanent ceilings on debt as a percentage of GDP that decline by 0.2 percentage points per year, starting with OMB's capped baseline estimate of fiscal year 2014 debt when OMB issues its sequestration preview report for fiscal year 2015 in the 2015 Budget.[6] OMB would extend the fixed debt triggers by one year when it issues each subsequent sequestration preview report by subtracting 0.2 percentage points from the fixed debt trigger for the previous year.

The proposal also defines above-path debt triggers and below-path debt triggers for the fourth outyear (the fourth year after the budget year). The above-path debt trigger equals the fixed debt trigger for the current year minus 10 percentage points. It would come into play only when OMB's capped baseline estimate of debt for the current year exceeds the fixed debt trigger for that year. The below-path debt trigger equals OMB's capped baseline estimate of debt for the current year as a percentage of GDP minus one percentage point and would come into play whenever OMB's capped baseline estimate of debt for the current year is below the fixed debt trigger for that year. OMB would recalculate these two debt triggers each year.

Excess Debt Determination.—Each year, OMB would report in its sequestration preview report whether there is excess debt in the budget year or over the five years ending with the fourth outyear.

Five-year excess debt is measured in one of two ways. If OMB's capped baseline estimate of debt as a percentage of GDP for the current year is greater than or equal to the fixed debt trigger for that year, five-year excess debt equals the difference between OMB's estimate of baseline debt for the fourth outyear and the higher of the fixed debt trigger or the above-path debt trigger for that year. If OMB's capped baseline estimate of debt as a percentage of GDP for the current year is less than the fixed debt trigger for that year, then five-year excess debt equals the amount by which the capped baseline estimate of debt in the fourth outyear exceeds the below-path debt trigger for the fourth outyear.

Budget-year excess debt is the larger of two measures – the backload prevention measure and excess debt above the budget-year ceiling. The backload prevention mea-

[6] This is one year later than the starting year contained in the Joint Committee proposal.

sure equals one-tenth of the five-year excess debt. Its purpose is to require at least a minimal amount of debt reduction in the budget year, so as to discourage back loading the savings to the end of the five-year budget horizon. The budget-year ceiling equals current-year debt as a percentage of GDP minus one-fifth of the difference between current-year debt as a percentage of GDP and the debt trigger for the fourth outyear, with the difference further reduced by 0.2 percentage points. Its purpose is to require debt to decline between the current year and the budget year.

To track progress toward achieving the required debt reduction, OMB would maintain and make publicly available a continuously updated scorecard displaying OMB's estimate of budget-year excess debt and five-year excess debt as calculated in OMB's sequestration preview report, OMB's estimates of the effect on debt of legislation enacted during the current session of Congress for the current year through the fourth outyear, and any remaining budget-year excess debt and five-year excess debt. OMB's estimates would use the economic and technical assumptions underlying the estimates in the most recent President's Budget, and OMB would follow scorekeeping guidelines determined after consultation with the House and Senate Committees on the Budget and CBO.

Enforcement via Sequestration.—At the end of each session of Congress, OMB would issue a final sequestration report that determines whether any excess debt remains. If so, OMB would be required to prepare and the President to issue a sequestration order to reduce budget-year debt by the greater of any remaining budget-year excess debt or one-fifth of any remaining five-year excess debt, if the reduction required is greater than $15 billion. If the reduction is less than $15 billion, it would add to the need to reduce debt in the subsequent year. Half of any sequestration is to be obtained from outlays and half from tax expenditures. Half of the reduction in outlays is to come from non-exempt defense (function 050) accounts and half from non-exempt, non-defense accounts (all other non-exempt accounts). Sequestration of Medicare and certain other health programs would be limited to 2 percent, and the reduction for all other non-exempt, non-defense accounts would be increased by a uniform percentage to achieve the remaining required outlay reductions.

Tax sequestration would be achieved by limiting itemized deductions, specified above-the-line deductions, and the tax value of certain exclusions from income. The Treasury Secretary would determine the percentage that would achieve the necessary dollar reduction in these tax expenditures. The reduction would apply to the taxable year beginning on January 1 of the budget year for which the sequestration applies. Any reductions would apply only to taxpayers with adjusted gross income for the taxable year in excess of: $250,000 in the case of married taxpayers filing jointly, $225,000 in the case of heads of household, $125,000 in the case of married taxpayers filing separately, and $200,000 in the case of all other individuals.

Recession Safety Valve.—The requirement to reduce debt would be suspended whenever the economy slips into a recession, beginning in the month when the monthly civilian unemployment rate, seasonally adjusted, exceeds 5.0 percent and has increased by at least 0.5 percentage points over the previous six months. The suspension period continues until the month in which the unemployment rate falls below 8.5 percent and below the unemployment rate in the sixth month prior to the current month, plus an additional three months. If the suspension period would end before the end of the current session of Congress, the suspension period would continue through the end of that session. Any sequestration order in effect would be cancelled during this period, and funding that was cancelled by the sequestration order would be restored, to the extent possible.

The proposal provides for a 12-month transition period after the suspension period ends, during which the required debt reduction is reduced by one-half. If the transition period would end before the end of the current session of Congress, then it is extended through the end of that session. The requirements to reduce debt and to sequester budget year resources if debt is not sufficiently reduced become fully effective in the first session of Congress after the transition period ends.

III. STATUTORY PAYGO

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

Drawing upon the version of the law enacted as part of the 1990 Budget Enforcement Act, the Act requires that, subject to specific exceptions, all legislation enacted during each session of Congress changing taxes or mandatory expenditures and collections not increase projected deficits. Mandatory spending encompasses any spending except that controlled by the annual appropriations process.[7]

PAYGO established 5- and 10-year scorecards to record the budgetary effects of legislation; these scorecards are maintained by the OMB and are published on the OMB web site (*http://www.whitehouse.gov/omb/paygo_default*). PAYGO also established special scorekeeping rules that affect whether all estimated budgetary effects of PAYGO bills are entered on the scorecards. Off-budget programs and provisions designated by Congress in law as emergencies are not included. Also, if an act uses timing shifts to keep costs outside of the 10-year PAYGO scorecard window, those timing shifts are ignored.

The requirement of budget neutrality is enforced by an accompanying requirement of automatic across-the-board

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

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

Exemptions from a sequestration order include Social Security; most unemployment benefits; veterans' benefits; interest on the debt; Federal retirement; and the low-income entitlements such as Medicaid, the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), and Supplemental Security Income (SSI).[8] The major remaining mandatory programs, which are subject to sequestration, include most Medicare payments (maximum sequestration of 4 percent), farm price supports, vocational rehabilitation basic State grants, mineral leasing payments to States, the Social Services Block Grant, and many smaller programs. The list of exempt programs and the special sequestration rules for certain programs are contained in sections 255 and 256 of BBEDCA, and the exemptions and special rules apply to several different sequestrations: the sequestration pursuant to the PAYGO Act, the sequestration to eliminate excess spending above discretionary caps specified in section 251 of BBEDCA, and the sequestration currently required by the BCA as a result of the failure of the Joint Committee process.

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

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

Administrative PAYGO

The Administration continues to review potential administrative actions by Executive Branch agencies affecting entitlement programs, as stated in a memorandum issued on May 23, 2005, by the Director of the Office of Management and Budget. This effectively establishes a PAYGO requirement for administrative actions involving mandatory spending programs. Exceptions to this requirement are only provided in extraordinary or compelling circumstances.[9]

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

IV. IMPROVED BASELINE AND BUDGET PRESENTATION

Improved Definition of Baseline

The Administration suggests changes to the concepts used in formulating baseline projections to make the resulting product more useful to the public and to policymakers: extending certain major expiring tax and mandatory provisions, adjustments for disaster costs, and adjustments to reflect the cost of fully funding the existing Pell Grant program. In addition, as explained above, the transition from a highway trust fund in which outlays are treated as discretionary to a transportation trust fund whose outlays are treated as mandatory involves adjusting presentations, including baselines, so that corresponding funding and spending levels will be displayed on a comparable basis during the transition. The Administration also makes modifications to the baseline to reflect the discretionary caps on budget authority enacted in the BBEDCA, including the reflection of the cap adjustments permitted by the Act for program integrity activities and funding for the OCO cap adjustments inflated at the inflation rates in the baseline, and to reflect the Joint Committee enforcement procedures.

For years, the baseline used by Congress has followed the definition contained in section 257 of the BBEDCA. However, the BBEDCA baseline does not accurately reflect a continuation of current policy. In each of its Budgets, this Administration has built its budget proposals starting from a baseline that adjusts the BBEDCA baseline to better represent the thrust of current policy in certain major cases, and recommends that Congress, the Congressional Budget Office, and the public use such a baseline in their own analyses as well. The deficit impacts of the adjustments to the BBEDCA baseline are summarized in Summary Table S-8 of the Budget. The adjustments are described below. Further detail about the adjusted baseline is provided in Chapter 27, "Current Services Estimates," in this volume.

While the adjusted baseline provides a more realistic basis for analyzing budgets in general and tax policy in particular, the adjusted baseline is not intended to replace the BBEDCA baseline with respect to mandatory programs and revenues, either for legal purposes or to alter the application of the Statutory PAYGO Act of 2010. Specifically, the costs or savings from legislation affecting mandatory spending or revenues are measured relative to the BBEDCA baseline for purpose of entries on the PAYGO scorecards, discussed earlier in the chapter.[10]

Adjustments to Reflect Certain Tax Policies.—In recent years, Congress has repeatedly extended provisions of the tax code that have a large deficit impact or signaled its intention that a provision be extended when it enacted it for a limited number of years. The Administration's ad-

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

justed baseline assumes permanent extension of the 2001 and 2003 income tax cuts for all taxpayers, the estate and gift tax as in effect in tax year 2012, and extension and indexation for inflation of the 2011 parameters of the Alternative Minimum Tax. These adjustments are similar but not identical to the current policy adjustments previously provided under the PAYGO Act.

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

Adjustments for Disaster Costs.—Because the BBEDCA baseline extends all appropriations already enacted for the year in progress, it can be subject to huge swings as a result of funding enacted as an emergency requirement or as disaster relief funding pursuant to the cap adjustments for these items permitted by section 251(b)(2) of the BBEDCA, as amended. At times, the BBEDCA baseline could extend large one-time emergency or disaster appropriations for the next 10 years; at other times it might extend very little. The Administration's baseline includes adjustments to account for these swings. Specifically, the Administration's adjusted baseline removes any extension of enacted appropriations that were designated by the Congress in 2012 as disaster relief funding and substitutes an allowance for disaster costs in the budget year and future fiscal years. This allowance reflects the fact that the disaster relief cap adjustment has already allowed funding for nearly $10.5 billion in the BBEDCA-designated disasters in 2012, the Budget is specifically requesting more than $5.6 billion in 2013 for major disasters, and major natural or man-made disasters are likely to occur at some point in subsequent years. Obviously, both the timing and amounts are unknowable in advance. In addition to the inclusion of this entry in the baseline, the Administration includes the same allowance in its Budget.

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

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

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

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

The Administration believes that baselines prepared by the Congressional Budget Office and others would likewise be more realistic and better reflect the congressional scorekeeping rule if they projected the discretionary portion of Pell Grants in this way.

Fannie Mae and Freddie Mac

The Budget continues to present Fannie Mae and Freddie Mac, the housing Government-Sponsored Enterprises (GSEs) currently in Federal conservatorship, as non-Federal entities. However, Treasury equity investments in the GSEs are recorded as budgetary outlays, and the dividends on those investments are recorded as offsetting receipts. In addition, the budget estimates reflect collections from the 10 basis point increase in GSE guar-

antee fees that was enacted under the Temporary Payroll Tax Cut Continuation Act of 2011 (P.L. 112-78). The Administration's February 2011 white paper outlined a commitment to wind down the GSEs, facilitate the return of private capital to the housing market, and work with Congress to reform the larger housing finance system. The Budget also continues the Administration's commitment to reduce the size of the GSEs' investment portfolios by at least 10 percent a year and reflects the expiration of temporarily expanded loan limits for the GSEs originally enacted in 2008. The GSEs are discussed in more detail in Chapter 23, "Credit and Insurance," in this volume.

Fair Value for Credit Programs

The Federal Credit Reform Act of 1990 (FCRA) changed the budget measure of cost for Federal direct loans and loan guarantees provided to individuals and non-Federal entities. Prior to the enactment of FCRA, the Government's loan programs were reflected in the budget on a cash basis. Cash is a poor measure of cost for loan programs. For direct loans, the initial cash disbursement to make the loan overstates the full cost to the Government because the Government receives future income from the borrowers in the form of repayments, interest, and fees. For loan guarantees, the Government generally disburses cash to make good on the guarantees years after the borrower receives the loan, which is long after the Government incurs the cost. FCRA changed the budget measure of cost for Federal credit programs from a cash basis to a present value basis, recording the cost up front, taking into account all of the cash flows associated with the credit instrument, and using the Treasury rate to do the discounting.

In recent years, questions have been raised by the Congressional Budget Office and other observers about whether the FCRA approach omits some of the costs associated with Federal credit programs. In particular, they ask whether it would be conceptually better to use a "fair value" estimate in place of the FCRA estimate. This raises serious conceptual and implementation issues. Chapter 23, "Credit and Insurance," discusses some of these issues.

Debt Net of Financial Assets

In the Summary Tables included in the main *Budget* volume, Tables S-1 and S-15 display both debt held by the public and debt held by the public net of financial assets. Borrowing from the public is normally a good approximation of the Federal demand on credit markets. However, it provides an incomplete picture of the financial condition of the Government and under some circumstances

ACQUISITION OF FINANCIAL ASSETS

There are a number of circumstances in which the Treasury disburses cash and receives financial assets in return. In some cases, these transactions are recognized as an exchange of financial assets and so are not considered budgetary transactions at all; rather they are considered non-budgetary financing transactions. Purchasing gold, depositing Treasury operating cash in "tax and loan" accounts, or depositing cash with the Federal Reserve are examples of such transactions. In each case, borrowing from the public is higher than it would be if the transaction did not occur, but the extra borrowing does not represent extra spending or a higher deficit because the financial asset acquired by the Treasury fully offsets the liability of extra debt incurred by the Treasury.

Direct loans are a similar example; in those cases, the Government disburses cash (makes a direct loan) to a borrower (e.g., a student, farmer, small business, etc.) and receives in return a loan asset or IOU from the borrower. In most cases the risk of default (and perhaps an interest-rate differential) makes the loan asset worth less than the cash disbursed by the Treasury. The difference in value represents the loss, or cost, the Government is expected to incur on such transactions. Put differently, the difference in value represents a subsidy to the borrower. The Government measures the cost or subsidy by discounting to the present the estimated present and future cash flows related to the loan contract, and records the amount of subsidy as an outlay. Present-value scorekeeping is used precisely because it is a method of comparing the value of future cash flows with an equivalent amount of up-front cash. Chapter 12, "Budget Concepts," in this volume discusses this subject in more detail. Chapter 23, "Credit and Insurance," also in this volume provides more information on credit programs and includes a discussion of fair value cost estimates for credit programs.

Two other similar examples are the Troubled Asset Relief Program (TARP) and the National Railroad Retirement Investment Trust. In each of these cases, the programs can acquire private-sector equities or equivalent financial instruments, and in each case, Congress mandated scorekeeping methods that do not show the purchase prices as an outlay.

However, budget scorekeeping rules have only partially incorporated the concept that the value of an acquired financial asset is best recorded as an offset against the cost of its acquisition. As a result, the cash paid to acquire stock in Fannie Mae and Freddie Mac is recorded as a pure outlay (and increase in the deficit) at the point of purchase. Dividends paid by the two entities appear as cash inflows to the Treasury (and reductions in the deficit). If and when that stock is later sold to the public, the cash received in return will reduce the deficit at that time.

Over time—and accounting for interest on the cash flows – present value or subsidy scorekeeping produces the same total effect on the deficit as cash scorekeeping. The former may be preferable, however, because it means that the Government records the full expected cost of a transaction up front, when it occurs. The same reasoning suggests that the use of the budget to allocate public resources would benefit from up-front or present-value scorekeeping.

may misrepresent the net effect of Federal activity on credit markets. Some transactions that increase the Federal debt also increase the financial assets held by the Government. For example, when the Government lends money to a private firm or individual, the Government acquires a financial asset that provides a stream of future payments of principal and interest. At the time the loan is made, debt held by the public reflects only Treasury's borrowing to finance the loan, failing to reflect the value of the loan asset acquired by the Government. Similarly, the estimate of debt held by the public does not reflect estimated liabilities on loan guarantees. In contrast, debt held by the public net of financial assets provides a more accurate measure of the Government's net financial position by including the value of loans and other financial assets held by the Government.

This measure is especially useful during times, like the present, when the Government has borrowed large sums of money to address difficulties faced by the economy and financial markets. As shown in Summary Table S-15, a large share of the Government's recent borrowing has financed the purchase of financial assets, so that the increase in debt held by the public net of financial assets is noticeably smaller than the overall increase in debt held by the public. Likewise, while Federal borrowing reduces the amount of private saving that is available through financial markets for private-sector investment, Federal acquisition of financial assets has the opposite effect—it injects cash into financial markets. Thus, the change in debt net of financial assets can better indicate the effect of the Federal Government on the financial markets.