



FISCAL YEAR 2013

# ANALYTICAL PERSPECTIVES

BUDGET OF THE U.S. GOVERNMENT

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# THE BUDGET DOCUMENTS

***Budget of the United States Government, Fiscal Year 2013*** contains the Budget Message of the President, information on the President's priorities, budget overviews organized by agency, and summary tables.

***Analytical Perspectives, Budget of the United States Government, Fiscal Year 2013*** contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective. This volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; information on Federal borrowing and debt; baseline or current services estimates; and other technical presentations.

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

***Historical Tables, Budget of the United States Government, Fiscal Year 2013*** provides data on budget receipts, outlays, surpluses or deficits, Federal debt, and Federal employment over an extended time period, generally from 1940 or earlier to 2013 or 2017.

To the extent feasible, the data have been adjusted to provide consistency with the 2013 Budget and to provide comparability over time.

***Appendix, Budget of the United States Government, Fiscal Year 2013*** contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committees. The *Appendix* contains more detailed financial information on individual pro-

grams and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language; budget schedules for each account; legislative proposals; explanations of the work to be performed and the funds needed; and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Information is also provided on certain activities whose transactions are not part of the budget totals.

## AUTOMATED SOURCES OF BUDGET INFORMATION

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

***Internet.*** All budget documents, including documents that are released at a future date, spreadsheets of many of the budget tables, and a public use budget database are available for downloading in several formats from the Internet at [www.budget.gov/budget](http://www.budget.gov/budget). Links to documents and materials from budgets of prior years are also provided.

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

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

## GENERAL NOTES

1. All years referenced for budget data are fiscal years unless otherwise noted. All years referenced for economic data are calendar years unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.
3. Under the President's Government consolidation proposal announced on January 13, 2012, a number of agencies and programs would be consolidated into a new department focused on supporting the growth of American business and the resulting job creation, with the goal of improving services and reducing costs. The specific proposal to create the new department will be submitted to the Congress once the consolidation authority requested by the President is enacted. The Administration's budget proposal, including the request in this Budget and agencies' supporting materials, is presented in terms of the existing agency structures, and appropriate adjustments will be submitted once consolidation authority is enacted.

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# INTRODUCTION

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# 1. INTRODUCTION

## Purpose of this Volume

The *Analytical Perspectives* volume presents analyses that highlight specific subject areas or provide other significant data that place the Budget in context and assist the public, policymakers, researchers, and the media to better understand the budget's effects on the Nation. This volume also provides background information to help readers understand the analyses presented.

Presidential budgets have included separate analytical presentations of this kind for many years. The 1947 Budget and subsequent budgets included a separate section entitled "Special Analyses and Tables" that covered four and sometimes more topics. For the 1952 Budget, the section was expanded to 10 analyses, including many subjects still covered today, such as receipts, investment, credit programs, and aid to State and local governments. With the 1967 Budget this material became a separate volume entitled "Special Analyses," and included 13 chapters. The material has remained a separate volume since then, with the exception of the Budgets for 1991–1994, when all of the budget material was included in one large volume. Beginning with the 1995 Budget, the volume has been named *Analytical Perspectives*.

As in previous years, several large supplemental tables are included at [www.whitehouse.gov/omb/budget/fy2013/spec.html](http://www.whitehouse.gov/omb/budget/fy2013/spec.html) and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume. A list of these items is in the Table of Contents.

## Overview of the Chapters

### *Economic and Budget Analyses*

*Economic Assumptions.* This chapter reviews recent economic developments; presents the Administration's assessment of the economic situation and outlook, including the effects of macroeconomic policies; and compares the economic assumptions on which the Budget is based with the assumptions for last year's Budget and those of other forecasters.

*Interactions Between the Economy and the Budget.* This chapter illustrates how different economic paths would produce different budget results even if current law remained unchanged, and provides sensitivity estimates for the effects on the Budget of changes in specified economic assumptions. It also provides estimates of the cyclical and structural components of the budget deficit. Past errors in economic projections are reviewed.

*Financial Stabilization Efforts and Their Budgetary Effects.* This chapter focuses on Federal efforts to stabilize the economy and promote financial recovery in the

wake of the deep recession of 2008, including the Troubled Asset Relief Program (TARP), reform of financial regulation, and other measures. The chapter also includes special analyses of the TARP as described in Section 203(a) of the Emergency Economic Stabilization Act of 2008.

*Long-Term Budget Outlook.* This chapter assesses the long-term budget outlook and the sustainability of current budget policy by focusing on 75-year projections of the Federal budget and showing how alternative long-term budget assumptions would produce different results. The chapter presents information on the size of the fiscal gap, and the budgetary effects of growing health costs. The chapter also explains why long-term primary surpluses (surpluses when interest costs are not counted) are needed to achieve sustainability.

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

### *Performance and Management*

*Delivering a High-Performance Government.* This chapter describes this Administration's approach to performance management, the Federal Government's use of performance goals, measurement, and regular data-driven reviews to drive significant performance gains. Starting with the 2011 Budget process, leaders of the 15 Cabinet departments and 9 other large Federal agencies were asked to identify a small number of ambitious, outcome-focused, near-term Agency Priority Goals (formerly High Priority Performance Goals) achievable with existing resources and legislation, and which rely primarily on strong execution to accomplish. The Administration also identified specific Government-wide management goals to cut waste and modernize the systems that power Government operations—in information, finance, acquisition, and human resource management. This chapter provides an update on the Administration's progress in these areas, and introduces 2012-13 Agency and Cross-Agency Priority Goals, now required by the newly enacted GPRA Modernization Act. In addition, the chapter explains how the Administration expects agencies to use outcome-focused performance information to lead and learn to improve outcomes; candidly communicate the priorities, problems, and progress implementing Government programs; and tap into problem-solving networks to deliver more public value for each taxpayer dollar.

*Program Evaluation and Data Analytics.* This chapter underscores this Administration's commitment to measuring what works and what does not. It highlights the

Administration's efforts to encourage rigorous evaluations, to improve program evaluation activities across the Federal government (including increasing their transparency), and to better integrate program evaluation into agency performance measurement and decision-making.

*Benefit-Cost Analysis.* This chapter discusses the use of benefit-cost analysis to design programs and policies to ensure that they achieve the maximal benefit to society and do not impose unjustified or excessive costs.

*Social Indicators.* This chapter presents a selection of statistics that offer a numerical picture of the United States. Included are economic statistics such as real GDP per capita, household income, and measures of income equality. There are also environmental and energy indicators. A second table shows health, education, and other social indicators.

*Improving the Federal Workforce.* Strengthening the Federal workforce is essential to building a high-performing Government. This chapter presents summary data on Federal employment and compensation; examines the challenges posed by an aging Federal workforce and strengthening the personnel system to achieve critical agency missions; and discusses progress in improving employee performance and human capital management.

### **Budget Concepts and Budget Process**

*Budget Concepts.* This chapter includes a basic description of the budget process, concepts, laws, and terminology, and includes a glossary of budget terms.

*Coverage of the Budget.* This chapter describes activities that are included in budget receipts and outlays (and classified as "budgetary") and those activities that are not included in the budget (and classified as "non-budgetary"). It also defines the terms "on-budget" and "off-budget."

*Budget Process.* This chapter includes the OMB Sequestration Preview Report for discretionary programs required by section 254 of the Balanced Budget and Emergency Deficit Control Act, a status report regarding scoring mandatory and revenue legislation for purposes of the Statutory Pay-As-You-Go Act of 2010, and descriptions of the Administration's proposals to make the budget process more responsible and to make budgets more transparent, accurate, and comprehensive.

### **Federal Receipts**

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

*Offsetting Collections and Offsetting Receipts.* This chapter presents information on collections that offset outlays, including collections from transactions with the public and intragovernmental transactions. In addition, this chapter presents information on "user fees," charges associated with market-oriented activities and regulatory fees. The user fee information includes a description of each of the user fee proposals in the Budget.

*Tax Expenditures.* This chapter describes and presents estimates of tax expenditures, which are defined as revenue losses from special exemptions, credits, or other preferences in the tax code.

### **Special Topics**

*Aid to State and Local Governments.* This chapter presents crosscutting information on Federal grants to State and local governments, including highlights of Administration proposals, a table displaying budget authority and outlays for all grant programs, and historical trends and data. An Appendix to this chapter includes State-by-State spending estimates of major grant programs.

*Strengthening Federal Statistics.* This chapter discusses 2013 Budget proposals for the Government's principal statistical programs.

*Information Technology.* This chapter gives an overview of Federal spending on information technology, and the major initiatives through which the Administration is seeking to improve Federal information technology to deliver better value to taxpayers through improved program performance, greater efficiency and cost savings, and extending the transparency of Government and participation of citizens. The chapter also discusses the Administration's plans to extend its accomplishments in Federal information technology from its first three years while continuing to provide strong information security and protection of privacy information.

*Federal Investment.* This chapter discusses federally financed spending that yields long-term benefits. It presents information on annual spending on physical capital, research and development, and education and training, and on the cumulative capital stocks resulting from that spending.

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

*Credit and Insurance.* This chapter provides crosscutting analyses of the roles, risks, and performance of Federal credit and insurance programs and Government-sponsored enterprises (GSEs). The general portion of the chapter covers the categories of Federal credit (housing, education, small business and farming, energy and infrastructure, and international) and insurance programs (deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism-related risks). It also offers occasional discussions of special issues. The focus this year is on issues relating to fair value cost estimates for Federal credit programs. Additionally, two detailed tables, "Table 23-11, Direct Loan Transactions of the Federal Government" and "Table 23-12, Guaranteed Loan Transactions of the Federal Government," are available at the Internet address cited above for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

*Homeland Security Funding Analysis.* This chapter discusses homeland security funding and provides information on homeland security program requirements, performance, and priorities. Additional detailed information is available at the Internet address cited above for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

*Federal Drug Control Funding.* This chapter displays enacted and proposed drug control funding for Federal departments and agencies.

*California Bay-Delta Federal Budget Crosscut (formerly CALFED).* This chapter presents information on Federal funding for the environmental restoration of California's Bay-Delta, one of the President's five priority ecosystems. Additional detailed tables on Bay-Delta funding and project descriptions are available at the Internet address cited above for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

### **Technical Budget Analyses**

*Current Services Estimates.* This chapter presents estimates of what receipts, outlays, and the deficit would be if current policies remained in effect, using modified versions of baseline rules in the Budget Enforcement Act (BEA). A detailed table, "Table 27-14, Current Services Budget Authority and Outlays by Function, Category, and Program" is available at the Internet address cited above for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

*Trust Funds and Federal Funds.* This chapter provides summary information about the two fund groups—Federal funds and trust funds. In addition, for the major trust funds and several Federal fund programs, the chapter provides detailed information about income, outgo, and balances.

*National Income and Product Accounts.* This chapter discusses how Federal receipts and outlays fit into the framework of the National Income and Product Accounts (NIPAs) prepared by the Department of Commerce. The NIPA measures are the basis for reporting Federal trans-

actions in the gross domestic product (GDP) and for analyzing the effect of the Budget on aggregate economic activity.

*Comparison of Actual to Estimated Totals.* This chapter compares the actual receipts, outlays, and deficit for 2011 with the estimates for that year published in the 2011 Budget. It also includes a historical comparison of the differences between receipts, outlays, and the deficit as originally proposed with final outcomes.

*Budget and Financial Reporting.* This chapter summarizes information about the Government's financial performance that is provided by three complementary sources—the Budget, the financial statements, and the integrated macroeconomic accounts. This chapter also provides alternative measures of the Government's assets and liabilities.

The following materials are available at the Internet address cited above for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

### **Detailed Functional Table**

*Detailed Functional Table.* Table 32-1, "Budget Authority and Outlays by Function, Category, and Program," displays budget authority and outlays for major Federal program categories, organized by budget function, BEA category, and program. This table is available at the Internet address cited above for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.

### **Federal Programs by Agency and Account**

*Federal Programs by Agency and Account.* Table 33-1, "Federal Programs by Agency and Account," displays budget authority and outlays for each account, organized by agency, bureau, fund type, and account. This table is available at the Internet address cited above for the electronic version of this volume and on the *Analytical Perspectives* CD-ROM enclosed with the printed version of this volume.



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## ECONOMIC AND BUDGET ANALYSES

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## 2. ECONOMIC ASSUMPTIONS

This chapter presents the economic forecast on which the 2013 Budget projections are based.<sup>1</sup> When the President took office in January 2009, the economy was in the midst of an historic economic crisis. The first order of business for the new Administration was to arrest the rapid decline in economic activity that threatened to plunge the country into a second Great Depression. The President and Congress took unprecedented actions to restore demand, stabilize financial markets, and put people back to work. These steps included passage of the American Recovery and Reinvestment Act (ARRA), signed by the President just 28 days after taking office. They also included the Financial Stability Plan, announced in February 2009, which encompassed wide-ranging measures to strengthen the banking system, increase consumer and business lending, and stem foreclosures and support the housing market. These and a host of other actions walked the economy back from the brink.

Production bottomed out during the spring, and the recession officially ended in June 2009.<sup>2</sup> This marked the end of the decline in production, but businesses were still shedding jobs. The unemployment rate reached a peak of 10.0 percent in October 2009, and payroll employment continued to fall until February 2010. The two years that followed have seen the economy gradually begin to recover. Over the past 10 quarters, through the fourth quarter of 2011, real Gross Domestic Product (GDP) has grown at an average rate of 2.4 percent, and since February 2010, 3.2 million jobs have been added in the private sector. Meanwhile, the unemployment rate has fallen from its October 2009 peak of 10.0 percent to 8.5 percent (as of December 2011).

The recovery is projected to gain momentum in 2012-2013 and to strengthen further in 2014. Unfortunately, even with healthy economic growth, unemployment is expected to be higher than normal for several more years. The Administration is projecting a full recovery from the recession of 2008-2009, but one that is drawn out because of the lingering effects of the financial crisis. A similar pattern of delayed growth is expected by the Federal Reserve and the Congressional Budget Office (see the discussion below on forecast comparisons).

### Recent Economic Performance

The accumulated stresses from a contracting housing market and the resulting strains on financial markets brought the 2001-2007 expansion to an end in December

2007. In its early stages, the 2008-2009 recession was relatively mild, but financial conditions worsened sharply in the fall of 2008, and from that point forward the recession became much more severe. Before it ended, real GDP had fallen further and the downturn had lasted longer than any previous post-World War II recession. Looking ahead, the likely strength of the recovery is one of the key issues for the forecast, and the aftermath of the housing and financial crises has an important bearing on the expected strength of the recovery.

**Housing Markets.**—The economy's contraction had its origin in the housing market. In hindsight, it is clear that in the early years of the previous decade housing prices became caught up in a speculative bubble that finally burst. In 2006-2007, housing prices peaked, and from 2007 through 2008, housing prices fell sharply according to most measures.<sup>3</sup> Since 2009, housing prices measured in real terms relative to the Consumer Price Index (CPI) have not increased, which has limited the recovery in household wealth (see chart below). During the downturn, as prices fell, investment in housing plummeted, reducing the annualized rate of real GDP growth by an average of 1 percentage point per quarter. With the slower decline of house prices since 2009, housing investment has begun to stabilize, neither adding nor subtracting from real GDP growth on average since 2009:Q2. However, so far housing investment has not made a positive contribution to growth on a sustained basis as it has done in past expansions.

In April 2009, monthly housing starts fell to an annual rate of just 478,000 units, the lowest level ever recorded for this series, which dates from 1959. Housing starts have fluctuated since then, responding to new tax incentives for home purchase and their expiration. The monthly data show housing starts of 657,000 at an annual rate in December 2011. In normal times, at least 1.5 million starts a year are needed to accommodate the needs of an expanding population and to replace older units, indicating that there is potential for a substantial housing rebound. A large overhang of vacant homes must be reduced, however, before a robust housing recovery can become established. The foreclosure rate in the third quarter of 2011 was 1.1 percent, which is down 0.2 percentage points from its rate in 2010:Q3, but remains one of the highest on record. With new foreclosures continuing to add to the stock of vacant homes, housing prices and new investment have remained subdued. The Administration forecast assumes a gradual recovery in housing activity that adds moderately to real GDP growth.

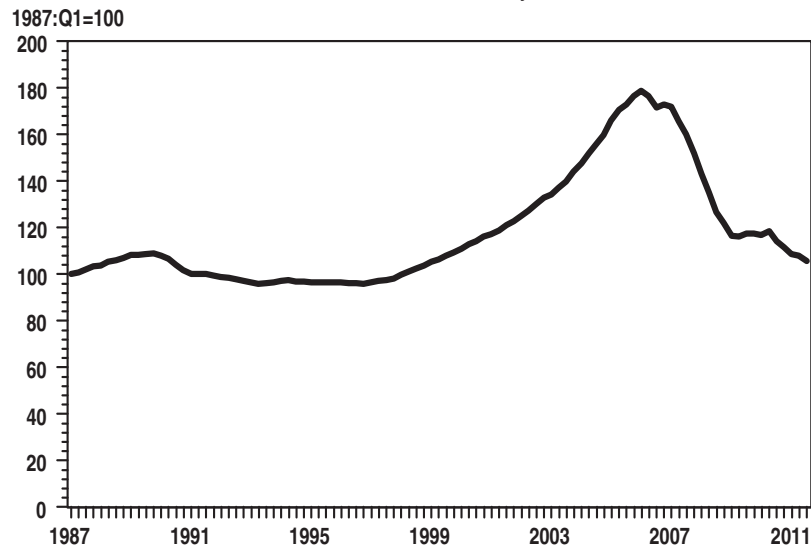
<sup>1</sup> In the Budget, economic performance is discussed in terms of calendar years. Budget figures are discussed in terms of fiscal years.

<sup>2</sup> The dating of U.S. business cycles is done by the National Bureau of Economic Research, a private institution that has supported economic research on business cycles and other topics for many decades.

<sup>3</sup> There are several measures of national housing prices. Two respected measures that attempt to correct for variations in housing quality are the S&P/Case-Shiller Home Price Index and the Federal Housing Finance Agency (FHFA) Purchase-Only House Price Index. The Case-Shiller index peaked in 2006, while the FHFA index peaked in 2007.

### Chart 2-1. Real House Prices Have Declined

Case-Shiller National Home Price Index Divided by the CPI-U Research Series

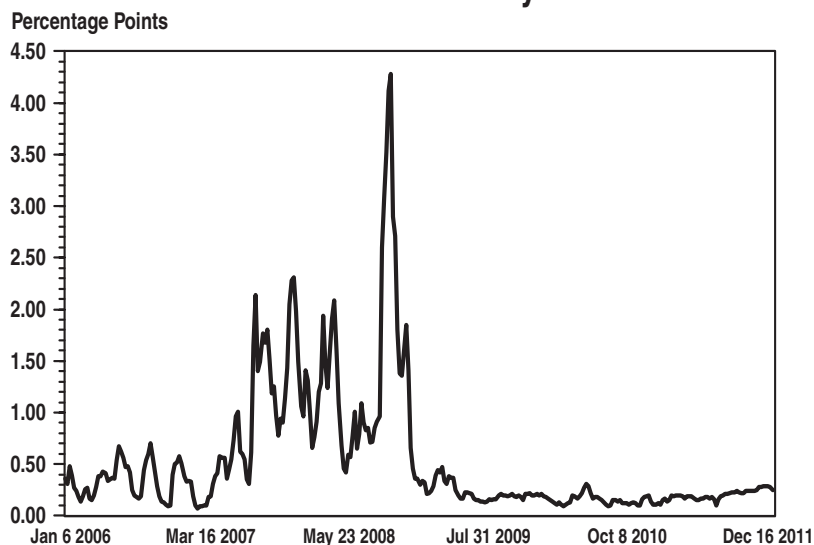


**The Financial Crisis.**—In August 2007, the United States subprime mortgage market became the focal point for a worldwide financial crisis. Subprime mortgages are provided to borrowers who do not meet the standard criteria for borrowing at the lowest prevailing interest rate, because of low income, a poor credit history, lack of a down payment, or other reasons. In the spring of 2007, there were over \$1 trillion outstanding in such mortgages, and because of falling house prices, many of these mortgages were on the brink of default. As banks and other investors lost confidence in the value of these high-risk mortgages and the mortgage-backed securities based on them, lending between banks froze. Non-bank lenders also became unwilling to lend. Financial market participants of all kinds were uncertain of the degree to which other participants' balance sheets had been contaminated. The heightened uncertainty was reflected

in unprecedented spreads between interest rates on Treasury securities and those on various types of financial market debt.

One especially telling differential was the spread between the yield on short-term U.S. Treasury securities, and the London interbank lending rate (LIBOR) which banks trading in the London money market charge one another for short-term lending in dollars. Historically, this differential has been 30 or 40 basis points. In August 2007, it shot up to over 200 basis points, and it spiked again, most dramatically, in September 2008 following the bankruptcy of Lehman Brothers (see chart). The policy response following the Lehman Brothers bankruptcy was crucial in restoring confidence and limiting the financial panic. Over the course of the following three months, the Federal Reserve lowered its short-term interest rate target to near zero, while creating new programs

### Chart 2-2. The One-Month LIBOR Spread over the One-Month Treasury Yields





to provide credit to markets where financial institutions were no longer lending. The Troubled Asset Relief Program (TARP) provided the Treasury with the financial resources to bolster banks' capital position and to remove troubled assets from banks' balance sheets. In the spring of 2009, the Treasury and bank regulators conducted the Supervisory Capital Assessment Program, a stress test to determine the health of the 19 largest U.S. banks. The test provided more transparency for banks' financial positions, which reassured investors. Consequently, the banks have been able to raise private capital, providing further evidence that the credit crisis has eased. As these actions were taken, the LIBOR spread narrowed sharply, and other measures of credit risk also declined. During 2009, the spreads between Treasury yields and other interest rates generally regained pre-crisis levels, and they held these levels through 2011. This is the clearest evidence that the U.S. financial crisis has abated, although the access to credit for small businesses and homebuyers remains constrained.

While the U.S. crisis has eased, that is definitely not true worldwide. Europe continues to confront financial uncertainty stemming from the troubled financial condition of several countries in the Euro zone. After the Euro was established as the common currency for 17 European countries in 1999, interest rates in those countries moved close together as their inflation rates tended to converge. However, recent events have led markets to reassess the long-run solvency of some of the countries using the Euro, and the result has been a striking divergence in the interest rates charged to the various countries. High interest rates on their debt make it difficult for the most threatened of these countries to address the pressing fiscal issues that have put their long-run solvency in danger. The United States would certainly suffer if the crisis in the Euro zone were to intensify. U.S. banks and other financial institutions have investments in Europe that would be at risk. Uncertainty about these possibilities has troubled U.S. financial markets

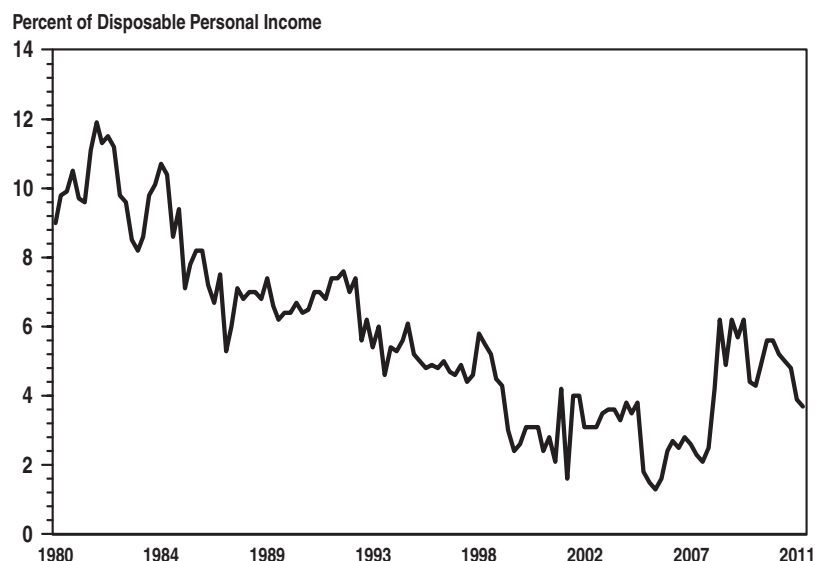
along with other markets around the world throughout the past year. The atmosphere of financial uncertainty has contributed to the reluctance of many lenders to lend except for the safest of investments.

**Negative Wealth Effects and Consumption.—** Between the third quarter of 2007 and the first quarter of 2009, the real net worth of American households declined by 27 percent – the equivalent of more than one year's GDP. A precipitous decline in the stock market, along with falling house prices over this period, were the main reasons for the drop in household wealth. Since then, real wealth has risen, but the increase through the third quarter of 2011 was only 8 percent. House prices nationally are falling less rapidly, and the stock market has partially recovered, but real net worth remains 21 percent below its 2007 peak level.<sup>4</sup>

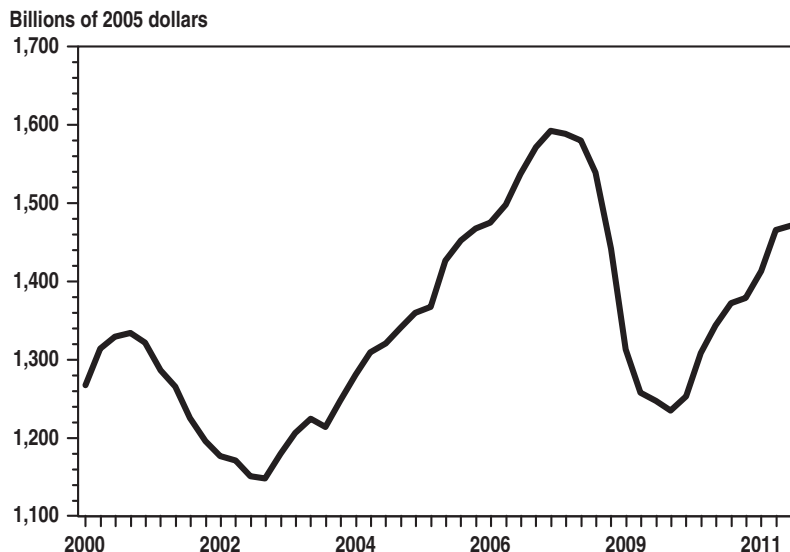
Americans have reacted to this massive loss of wealth by saving more. The personal saving rate had been declining since the 1980s, and it reached a low point of 1.3 percent in the third quarter of 2005. It remained low, averaging only 2.2 percent through the end of 2007, but since then, as wealth has declined, the saving rate has increased. It rose to a temporary high point of 6.2 percent in the second quarter of 2009, following a distribution of special \$250 payments to Social Security recipients and the implementation of other Recovery Act provisions. Since then, the saving rate has averaged 4.7 percent, although it dipped below 4.0 percent in the second half of 2011. In the long-run, increased saving is essential for future living standards to rise. However, a sudden increase in the desire to save implies a corresponding reduction in consumer demand, and a fall-off in consumption had a negative effect on the economy during the recession of 2008 and early 2009. During that period, real consumer spending fell at an annual rate of 2.3 percent. Since then, real consumer spending has recovered and now exceeds its

<sup>4</sup> Real wealth is computed by deflating household net worth from the Flow-of-Funds Accounts by the Chain Price Index for Personal Consumption Expenditures. Data are available through 2011:Q3.

**Chart 2-3. Personal Saving Rate**



### Chart 2-4. Real Business Fixed Investment



previous peak level. Continued growth in consumption is essential to a healthy recovery, and, if income also grows, increased consumption is compatible with a higher but stable saving rate.

**Investment.**—Business fixed investment fell sharply during the 2008-2009 contraction. It rose rapidly in 2010, and 2011, but even after the substantial increases in business spending for structures, equipment and software over the past 10 quarters, real investment remains well below its pre-recession levels implying room for further growth (see chart). The cost of capital is low and American corporations at the end of 2011 held substantial levels of cash reserves, which could provide funding for future investments as the economy continues to recover. The main constraint on business investment is poor sales expectations, which have been dampened by the slow pace of recovery. However, if consumption continues to expand, businesses are in a good position to expand investment. Strengthened by tax incentives, the outlook for investment is encouraging. Nevertheless, the pace of future growth could prove to be uneven, as investment tends to be volatile.

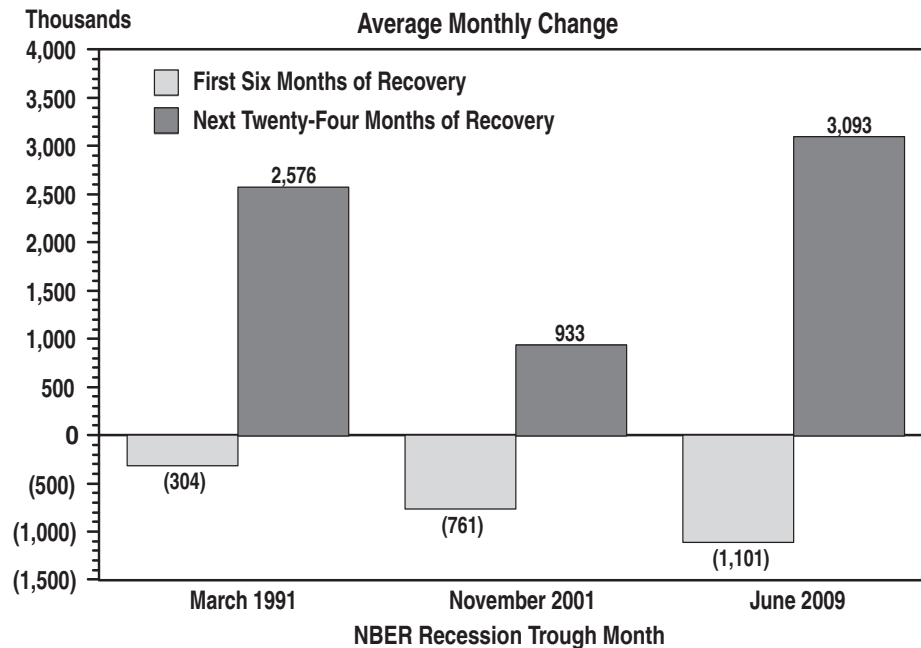
**Net Exports.**— Over the last two decades, the U.S. trade deficit expanded as foreign investors increased investment in the United States. The inflow of foreign capital helped fuel the housing bubble. The financial crisis and the resulting economic downturn sharply curtailed the flow of trade and foreign investment. In the third quarter of 2008, before the worst moment of the financial crisis, net exports measured at an annual rate, in the National Income Accounts, were -\$757 billion. Over the next three quarters, the deficit in net exports was more than cut in half, falling to -\$338 billion in the second quarter of 2009. Since then, as the U.S. economy has recovered, U.S. imports have grown at a faster pace than U.S. exports. Consequently, the net export balance has declined to -\$582 billion. It is unhealthy for the world economy to be too dependent on U.S. consumption spending, so further reductions in the U.S. trade deficit

would be desirable. The Administration's National Export Initiative is intended to increase U.S. exports to help reduce worldwide trade imbalances.

**The Labor Market.**—The unemployment rate peaked in 2009. It has declined since then, but it remains well above its historical average of under 6 percent, and the rate of long-term unemployment (those out of work for more than 6 months) is higher than at any other period since before World War II. The high rate of unemployment has had devastating effects on American families, and the recovery will not be real for most Americans until the job market also turns around. Historically, when the economy grows so does employment, and there are signs that this pattern is repeating itself in the current recovery, albeit slowly. Private employment has grown for 22 straight months, although at a relatively modest rate. The positive job growth has exceeded the job gains during similar periods in the two previous recoveries (see Chart 2-5).

**The Recovery in 2011.**— At the beginning of 2011, many private forecasters were expecting the recovery to pick up momentum over the course of the year. Instead, 2011 saw subpar growth due to unexpected headwinds. Global events weighed on the economy. Political uncertainty in the Middle East caused world oil markets to tighten, especially for the high-quality crude oil that is most useful in refining gasoline. The price of oil rose by 16 percent between September and December 2010 and then rose another 20 percent in March and April 2011. Consumers were pinched by the rising cost of fuel. Although the U.S. economy is less sensitive to oil price shocks than it was in the 1970s, higher fuel prices still exact a toll. On March 11, 2011, a severe earthquake followed by a devastating tsunami seriously damaged the coastal regions of northeastern Japan. These natural disasters had a worldwide impact as they curtailed production of parts needed for Japanese automobiles manufactured both in Japan and abroad. In the United States, for example, production of motor vehicles fell 6.3

**Chart 2-5. Private Job Gains and Losses During Recent Recoveries**



percent (0.5 million units at an annual rate) in the second quarter, with most of the decline at the American facilities of Japanese automakers. The combination of higher oil and gas prices along with the repercussions from the production cutbacks at motor vehicle assembly plants worked to offset the stimulative effects of lower payroll taxes and extended unemployment benefits enacted at the end of 2010. Fortunately, these particular headwinds are likely to be transitory. Oil prices have fluctuated over the last six months, but they were no higher in January 2012 than in May 2011. Meanwhile, Japanese manufacturing production has recovered from the effects of the earthquake allowing motor vehicle assemblies and sales in the United States to return to the levels reached before the disaster. As these shocks faded, economic growth picked up in the second half of 2011.

A more persistent source of sluggishness has been the sovereign debt crisis in Europe, which has repeatedly impinged on global equity markets and which threatens to place a new drag on consumer confidence and the global recovery going forward. In 2010, several European countries encountered difficulty in obtaining credit, and financial markets around the world responded negatively to these developments spreading the effects of the crisis to the United States and elsewhere. The European Union acted to confront these issues when they first emerged, and the affected governments have attempted to restrain their budget deficits. Even with these actions, however, the European recovery remains at risk because of increased uncertainty and because the measures taken to address the fiscal crisis have had the effect in some cases of limiting demand and hampering recovery. Concerns over sovereign debt returned in 2011 and spread to larger

countries in the European Union, creating renewed volatility in global financial markets.

### Policy Background

Over the last 36 months, the Administration and the Federal Reserve have taken a series of fiscal and monetary policy actions to bring the recession to an end and expedite the recovery. On the fiscal policy side, the passage of ARRA was a crucial step early in the Administration, other important actions followed, and the 2013 Budget includes new proposals to promote growth and employment. Meanwhile, the Federal Reserve has kept its target interest rate near zero, and it has pursued other novel measures to unfreeze the Nation's credit markets and bolster economic growth. Several Administration policy initiatives have been pursued to stabilize the Nation's financial and housing markets.

**Fiscal Policy.**—The Federal budget affects the economy through many channels. For an economy coming out of a deep recession, the most important of these is the budget's effect on total demand. In a slumping economy, with substantial spare capacity, the level of demand is the main determinant of how much is produced and how many workers will be employed. Government spending on goods and services can substitute for missing private spending while changes in taxes and transfers can contribute to demand by enabling people to spend more than they otherwise could or would. ARRA bolstered aggregate demand in several ways helping to spark the recovery. It increased spending on goods and services at the Federal level; it provided assistance to State Governments; it included large tax reductions for middle-class families; and it also extended unemployment insurance and

COBRA benefits, which have allowed people to maintain spending at levels higher than would have been possible without it.

Job losses in 2009-2010 would have been much greater without ARRA as the steep slump was likely to have continued without intervention. In the first three months of 2009, private payroll employment was falling at an average rate of 783,000 jobs per month. By the last three months of 2009, the rate of job loss had declined to 129,000 per month. The private sector began to add jobs in March 2010, and has added jobs every month since then (through December 2011). In the last three months of 2011, the economy added an average of 155,000 private-sector jobs per month, and almost 2 million private sector jobs over the course of the year. It is not possible to judge the effectiveness of a macroeconomic policy without some idea of the alternative. Critics of Administration fiscal policy have argued that the poor job market is evidence of its ineffectiveness. However, the only way to know that is through a macroeconomic model that can be used to project the employment outcome under an alternative policy. In fact, results from a range of models imply that employment was significantly increased by ARRA. The Council of Economic Advisers' (CEA) latest assessment estimates that ARRA increased employment by between 2.2 million and 4.2 million jobs through the second quarter of 2011, an estimate that is in line with private forecasters.<sup>5</sup>

The Administration has continued to pursue policies to reduce unemployment and create jobs. In 2010, the President launched the National Export Initiative, to support new jobs in American export industries. In March 2010, the President signed the Hiring Incentives to Restore Employment (HIRE) Act, which provided subsidies for firms that hired unemployed workers and provided other incentives. In September 2010, the President signed the Small Business Jobs Act, which provided tax relief and better access to credit to small businesses. In December 2010, the President reached agreement with Congress to extend several expiring tax provisions and avoid a large tax increase in 2011: the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act. The agreement included expanded tax incentives for business investment, a temporary reduction in payroll taxes, and extended long-term unemployment insurance benefits. These measures helped support economic growth in 2011. Although growth was held back by higher energy prices, the Japanese earthquake and tsunami, and the renewed financial crisis in Europe; growth would likely have been even weaker without the policy changes agreed to at the end of 2010.

The President has continued to call for measures that would strengthen growth and employment in the near term while also proposing fiscally responsible measures to reduce the long-run budget deficit. In the fall of 2011, the Administration proposed the American Jobs Act (AJA),

which would have extended and expanded the payroll tax cut enacted in December 2010. The AJA would also have extended unemployment insurance benefits for those out of work more than 26 weeks. The bill proposed new incentives for hiring long-term unemployed workers; new protections for the jobs of teachers, fire fighters, and police; more investment in community colleges and public schools; and creation of a national infrastructure bank to foster needed investments in public infrastructure. At the end of 2011, Congress extended the existing payroll tax cut and long-term unemployment insurance benefits for two months. This extension protected the average American family from an immediate tax increase that would have amounted to \$1,000 over the entire year. However, Congress must still act to extend this tax holiday for the full year and enact other measures that the President has proposed. The 2013 Budget includes many of the initiatives in the AJA, with enactment assumed for many of them by March 2012.

Economic recovery efforts increase the Federal budget deficit. This was the appropriate response to the crisis the Administration inherited, and it is expected to be temporary. The 2013 Budget provides a path to lower deficits over time. Once the economy recovers, unsustainably large deficits are bad for the economy. When private demand strengthens, deficits can raise interest rates and decrease private investment, as the Federal Government competes with investors in the credit markets. Deficits also contribute to the amount that the United States borrows from abroad. Persistently large deficits reduce future standards of living in two ways: higher interest rates and lower investment reduce productivity and future income, and an increase in foreign borrowing acts like a mortgage entailing future payments to foreign creditors. Deficits also limit the Government's maneuvering room to handle future crises. For these reasons, it is important to control the budget deficit and maintain fiscal discipline in the long run. But when unemployment is as high as it is today, budget deficits are essential to support demand in the private economy, and higher deficits can be used to reduce unemployment and strengthen economic growth. The Administration's policy proposals would use Federal borrowing to support economic growth in the near term, while constraining borrowing over time.

**Monetary Policy.**—The Federal Reserve is responsible for monetary policy. Traditionally, it has relied on a relatively narrow range of instruments to achieve its policy goals, but in the recent crisis the Fed has been forced to consider a broader approach. The short-term interest rate, the traditional tool of monetary policy, has been close to zero since the end of 2008, and the Fed has announced it will hold it near that level into 2014. Further cuts in short-term nominal rates are not possible, yet with unemployment high the Federal Reserve has needed to act in novel ways to achieve its dual mandate of stable prices and healthy economic growth. Consequently, the Federal Reserve has created new facilities to provide credit directly to the financial markets and has also bought longer-term securities for its portfolio.

<sup>5</sup> The CEA "multipliers" used for these estimates are similar to those used by the Congressional Budget Office (CBO) and private forecasters such as Macroeconomic Advisers LLC. See Council of Economic Advisers, "The Economic Impact of the American Recovery and Reinvestment Act of 2009: Eighth Quarterly Report," December 9, 2011.



The combination of aggressive monetary and fiscal policies helped reverse the economic downturn in 2009 and set the stage for an economic recovery in the summer of 2009. However, following an initial burst of growth in late 2009 and early 2010, the economy slowed. To help counter the slowdown, the Federal Reserve expanded its balance sheet even further in another round of purchases of long-term Treasury securities. In 2011, the Fed undertook to shift the composition of its portfolio in such a way as to reduce the yield on longer term Treasury securities. Because much of the increase in Federal Reserve liabilities has gone into idle reserves of banks, and because of the considerable slack in the economy, current inflation risks remain low despite these aggressive measures. The Federal Reserve is prepared to reduce the assets on its balance sheet promptly and take other actions to reduce the growth of the money supply when the recovery gains strength and the unemployment rate falls.

**Financial Stabilization Policies.**—Over the course of the last 36 months, the U.S. financial system has been pulled back from the brink of a catastrophic collapse. The very real danger that the system would disintegrate in a cascade of failing institutions and crashing asset prices has been averted. The Administration’s Financial Stability Plan played a key role in cleaning up and strengthening the Nation’s banking system. This plan began with a forward-looking capital assessment exercise for the 19 U.S. banking institutions with assets in excess of \$100 billion. This was the so-called “stress test” aimed at determining whether these institutions had sufficient capital to withstand stressful deterioration in economic conditions. The resulting transparency and resolution of uncertainty about banks’ potential losses boosted confidence and allowed banks to raise substantial funds in private markets and repay tens of billions of dollars in taxpayer investments.

The Financial Stability Plan also aimed to unfreeze secondary markets for loans to consumers and businesses. The Administration has undertaken the Making Home Affordable plan to help distressed homeowners avoid foreclosure and stabilize the housing market. More than 5.5 million modification arrangements were started between April 2009 and the end of November 2011 – including more than 1.7 million Home Affordable Modification Program (HAMP) trial modification starts, 1.1 million Federal Housing Administration (FHA) loss mitigation and early delinquency interventions, and more than 2.6 million proprietary modifications under the public-private HOPE Now program. Many of these modifications are a direct result of the standards and processes the Administration’s programs have established. While some homeowners may have received help from more than one program, the total number of agreements offered continues to be more than double the number of foreclosure completions for the same period.

Another crucial response to the financial crisis was the implementation of the Troubled Asset Relief Program (TARP), which was established in the fall of 2008. TARP provided the Treasury with the financial resources to bolster banks’ capital positions and to remove troubled

assets from banks’ balance sheets. Under the Obama Administration, the focus of TARP was shifted from large financial institutions to households, small banks, and small businesses. Since the Administration took office, the projected cost of TARP has decreased dramatically and programs are being successfully wound down. On October 3, 2010, authority to make new investments under TARP expired. Today, the Federal Government maintains TARP programs only where it has existing contracts and commitments. The net cost of TARP is now projected to be only a small fraction of its originally projected cost.

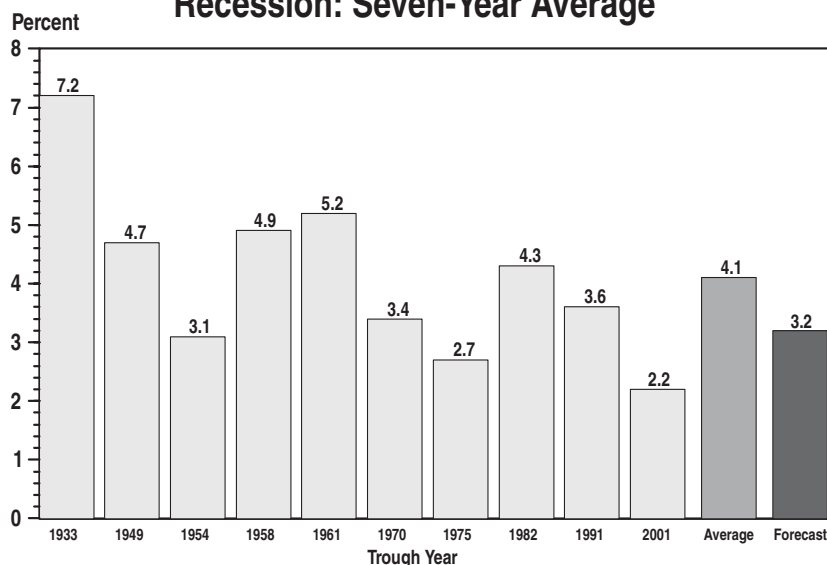
### Economic Projections

The economic projections underlying the 2013 Budget estimates are summarized in Table 2–1. The assumptions are based on information available as of mid-November 2011. This section discusses the Administration’s projections and the next section compares these projections with those of the Federal Reserve’s Open Market Committee (FOMC), the Congressional Budget Office (CBO), and the Blue Chip Consensus of private forecasters.

**Real GDP.**—The Administration projects the economic recovery that began in 2009 will continue in 2012-2013 with real GDP growing at an annual rate of 3.0 percent (fourth quarter over fourth quarter). Although growth is projected to be stable, the key supports for growth are expected to shift over the two years. In 2012, the Administration’s budget proposals underpin growth, while in 2013 increased private demand is expected to play a larger role in supporting continued recovery. This economic forecast is based on the assumption that the Administration’s budget proposals are enacted in full. The Administration recognizes that not all forecasters share this assumption, and it is the main reason the Administration projections for real growth in 2012 are stronger than the consensus expectation. In 2014, growth is projected to increase to around 4 percent annually as the job market improves and residential investment recovers. Real GDP is projected to return to its long-run “potential” level by 2020, and to grow at a steady 2.5 percent rate for the remaining years of the forecast.

As shown in Chart 2-6, the Administration’s projections for real GDP growth over the first seven years of the expected recovery imply an average growth rate below the average for historical recoveries. Recent recoveries have been somewhat weaker than average, but the last two expansions were preceded by mild recessions with relatively little pent-up demand when conditions improved. Because of the depth of the recent recession, there is much more room for a rebound in spending and production than was true either in 1991 or 2001. On the other hand, lingering effects from the credit crisis and other special factors have limited the pace of the recovery until now. Thus, the Administration is forecasting a slower than normal recovery, but one that eventually restores GDP to near the level of potential that would have prevailed in the absence of a downturn. Some international economic organizations have argued that a financial recession permanently scars an economy, and this view is also shared by some American forecasters. On

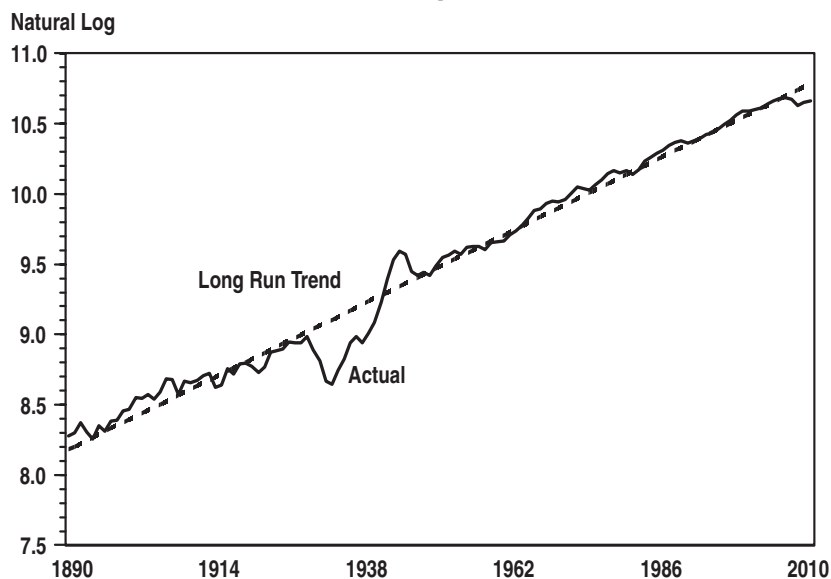
**Chart 2-6. Real GDP Growth Following a Recession: Seven-Year Average**



that view, there is no reason to expect a full recovery to the previous trend of real GDP. The statistical evidence for permanent scarring comes mostly from the experiences of developing countries and its relevance to the current situation in the United States is debatable. Historically, economic growth in the United States economy has shown considerable stability over time as displayed in Chart 2-7. Since the late 19th century, following every recession, the economy has returned to the long-term trend in per capita real GDP. This was true even following the only previous recession in which the United States experienced a disastrous financial crisis – 1929-1933 – although the recovery from the Great Depression was not complete until World War II restored demand.

The U.S. economy has enormous room for growth, although there are factors that could continue to limit that growth in the years ahead. On the positive side, the unemployment rate fell sharply at the end of 2011, and if the President's budget proposals are adopted, 2012 should get off to a solid start. The Federal Reserve's commitment to achieving its dual mandate means that monetary policy will continue to seek a robust recovery. However, financial markets here and in Europe have been troubled by concerns about weak economic growth and the sustainability of fiscal policy in some European countries. The drag from a European slowdown could hold back the U.S. economy.

**Chart 2-7. Real Per Capita GDP 1890-2010**



Sources: Angus Maddison, *The World Economy, Historical Statistics 1890-1929* and Bureau of Economic Analysis, *National Income and Product Accounts, 1929-2010*.

**Table 2-1. ECONOMIC ASSUMPTIONS<sup>1</sup>**  
(Calendar years; dollar amounts in billions)

	2010	Projections											
	Actual	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Gross Domestic Product (GDP):</b>													
Levels, dollar amounts in billions:													
Current dollars .....	14,527	15,106	15,779	16,522	17,397	18,448	19,533	20,651	21,689	22,666	23,659	24,688	25,760
Real, chained (2005) dollars .....	13,088	13,323	13,687	14,097	14,606	15,211	15,821	16,431	16,952	17,403	17,844	18,290	18,748
Chained price index (2005 = 100) .....	111.0	113.4	115.3	117.2	119.1	121.3	123.5	125.7	127.9	130.2	132.6	135.0	137.4
Percent change, fourth quarter over fourth quarter:													
Current dollars .....	4.7	4.0	4.6	4.7	5.8	6.1	5.8	5.7	4.6	4.4	4.3	4.3	4.3
Real, chained (2005) dollars .....	3.1	1.7	3.0	3.0	4.0	4.2	3.9	3.8	2.8	2.6	2.5	2.5	2.5
Chained price index (2005 = 100) .....	1.6	2.2	1.6	1.6	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Percent change, year over year:													
Current dollars .....	4.2	4.0	4.5	4.7	5.3	6.0	5.9	5.7	5.0	4.5	4.4	4.3	4.3
Real, chained (2005) dollars .....	3.0	1.8	2.7	3.0	3.6	4.1	4.0	3.9	3.2	2.7	2.5	2.5	2.5
Chained price index (2005 = 100) .....	1.2	2.1	1.7	1.7	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
<b>Incomes, billions of current dollars:</b>													
Domestic corporate profits .....	1,418	1,588	1,782	1,750	1,779	1,884	1,936	1,973	1,946	1,906	1,842	1,761	1,678
Employee compensation .....	7,971	8,278	8,595	8,955	9,433	9,992	10,622	11,297	11,953	12,586	13,230	13,885	14,587
Wages and salaries .....	6,408	6,668	7,025	7,253	7,601	8,063	8,578	9,150	9,696	10,219	10,749	11,277	11,850
Other taxable income <sup>2</sup> .....	3,108	3,308	3,495	3,697	3,899	4,164	4,475	4,766	5,022	5,251	5,464	5,655	5,794
<b>Consumer Price Index (all urban):<sup>3</sup></b>													
Level (1982-84 = 100), annual average .....	218.1	225.1	230.0	234.5	239.1	244.0	249.0	254.3	259.6	265.1	270.7	276.4	282.2
Percent change, fourth quarter over fourth quarter .....	1.2	3.6	1.9	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Percent change, year over year .....	1.6	3.2	2.2	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
<b>Unemployment rate, civilian, percent:</b>													
Fourth quarter level .....	9.6	9.0	8.8	8.6	7.8	7.0	6.3	5.6	5.5	5.4	5.4	5.4	5.4
Annual average .....	9.6	9.0	8.9	8.6	8.1	7.3	6.5	5.8	5.5	5.4	5.4	5.4	5.4
<b>Federal pay raises, January, percent:</b>													
Military <sup>4</sup> .....	3.4	1.4	1.6	1.7	NA	NA	NA	NA	NA	NA	NA	NA	NA
Civilian <sup>5</sup> .....	2.0	0.0	0.0	0.5	NA	NA	NA	NA	NA	NA	NA	NA	NA
<b>Interest rates, percent:</b>													
91-day Treasury bills <sup>6</sup> .....	0.1	0.1	0.1	0.2	1.4	2.7	3.8	4.1	4.1	4.1	4.1	4.1	4.1
10-year Treasury notes .....	3.2	2.8	2.8	3.5	3.9	4.4	4.7	5.0	5.1	5.1	5.1	5.3	5.3

NA = Not Available

<sup>1</sup>Based on information available as of mid-November 2011.

<sup>2</sup>Rent, interest, dividend, and proprietors' income components of personal income.

<sup>3</sup>Seasonally adjusted CPI for all urban consumers.

<sup>4</sup>Percentages apply to basic pay only; percentages to be proposed for years after 2013 have not yet been determined.

<sup>5</sup>Overall average increase, including locality pay adjustments. Percentages to be proposed for years after 2013 have not yet been determined.

<sup>6</sup>Average rate, secondary market (bank discount basis).

**Long-Term Growth.**—The Administration forecast does not attempt to project cyclical developments beyond the next few years. The long-run projection for real economic growth and unemployment assumes that they will maintain trend values in the years following the return to full employment. In the non-farm business sector, productivity is assumed to grow at 2.3 percent per year in the long run, while nonfarm labor supply grows at a rate of 0.7 percent per year, so nonfarm business output grows approximately 3.0 percent per year. Real

GDP growth, reflecting the slower measured growth in productivity outside the nonfarm business sector, proceeds at a rate of 2.5 percent. That is markedly slower than the average growth rate of real GDP since 1947 — 3.2 percent per year. In the 21st century, real GDP growth in the United States is likely to be permanently slower than it was in earlier eras because of a slowdown in labor force growth initially due to the retirement of the post-World War II “baby boom” generation, and later by a decline in the growth of the working-age population.

**Unemployment.**—In December 2011, the overall unemployment rate was 8.5 percent. It had shown little movement since early 2011, before beginning to decline in September. When the forecast for the unemployment rate for the Budget was finalized in mid-November 2011, the reported unemployment rate for the latest month available, October 2011, was 9.0 percent. The Administration's forecast seeks to be a balanced reflection of the most likely outcomes, and this is a cautious forecast reflecting information available at the time of the forecast and expected relationships among economic variables. Were it possible to update the forecast for the Budget, the unemployment rate in these projections would be lower, reflecting the sharp decline in the unemployment rate near the end of last the year.

**Inflation.**—Over the four quarters ending in 2011:Q4, the price index for Personal Consumption Expenditures rose 2.6 percent, significantly higher than the 1.3 percent increase over the previous four quarters. Meanwhile, the Consumer Price Index for all urban consumers (CPI-U) rose by 3.0 percent for the twelve months ending in December 2011. Over the previous 12 months it had risen by just 1.4 percent. The increase in inflation in 2011 was due almost entirely to sharp movements in food and energy prices. The “core” CPI, excluding both food and energy, was up only 2.2 percent through the 12 months ending in December and the GDP price index for consumption excluding food and energy was up only 1.7 percent over the most recent four quarters. There was some increase in the rate of core inflation, but mainly as a result of temporary factors such as higher rent increases and the pass-through of higher prices for food and energy goods into the prices of such goods and services as airline fares.

Weak demand continues to hold down prices for many goods and services, and continued high unemployment is expected to preserve a relatively low inflation rate. As the economy recovers and the unemployment rate declines, the rate of inflation should remain near the Federal Reserve's implicit target of around 2 percent per year. With the recovery path assumed in the Administration forecast, the risk of outright deflation appears minimal. The Administration assumes that the rate of change in the CPI will average 2.1 percent and that the GDP price index will increase at a 1.8 percent annual rate in the long run.

**Interest Rates.**—Interest rates on Treasury securities fell sharply in late 2008, as both short-term and long-term rates declined to their lowest levels in decades. Since then Treasury rates have fluctuated, but they have not returned to their levels before the financial crisis, and at the end of 2011 long-term rates were especially low. In the last week of December, the yield on 10-year Treasuries was just 1.9 percent. Investors have sought the security of Treasury debt during the heightened financial uncertainty of the last few years, which has kept yields low. At the short end of the yield curve, the Federal Reserve is holding short-term rates near zero as it seeks to foster economic growth and lower unemployment. The Federal Reserve's policy of purchasing long-term Treasury securities may

also be helping to hold down long-term rates. In the Administration projections, interest rates are expected to rise, but only gradually as financial concerns are alleviated and the economy recovers from recession. The 91-day Treasury bill rate is projected to remain near zero into 2013 consistent with the Fed's announced intentions, and then to rise to 4.1 percent by 2017. The 10-year rate begins to rise in 2013 and reaches 5.3 percent by 2017. These forecast rates are historically low, reflecting lower inflation in the forecast than for most of the post-World War II period. After adjusting for inflation, the projected real interest rates are close to their historical averages.

**Income Shares.**—The share of labor compensation in GDP was extremely low by historical standards in 2011. It is expected to remain low for the next few years falling to a low point of 54.2 percent of GDP in 2013-2015. As the economy grows faster in the middle years of the forecast period, compensation is projected to rise, reaching 56.6 percent of GDP in 2022. In the expansion that ended in 2007, labor compensation tended to lag behind the growth in productivity, and that has also been true for the recent surge in productivity growth in 2009-2010. The share of taxable wages, which is strongly affected by changes in health insurance costs, is expected to rise from 44.1 percent of GDP in 2010 to 46.0 percent in 2022. Health reform is expected to limit the rise in employer-sponsored health insurance costs and allow for an increase in take-home pay. The share of domestic corporate profits was 9.8 percent of GDP in 2010. Profits dropped sharply in 2008-2009, but have recovered in 2010 and 2011. In the forecast, the ratio of domestic corporate profits to GDP falls to about 6.5 percent by the end of the 10-year projection period as the share of employee compensation slowly recovers.

### Comparison with Other Forecasts

Table 2–2 compares the economic assumptions for the 2013 Budget with projections by CBO, the Blue Chip Consensus — an average of about 50 private-sector economic forecasts — and, for some variables, the Federal Reserve Open Market Committee. These other forecasts differ from the Administration's projections, but the forecast differences are relatively small compared with the margin of error in all economic forecasts. Like the Administration, the other forecasts project that real GDP will continue to grow as the economy recovers. The forecasts also agree that inflation will be low while outright deflation is avoided, and that the unemployment rate will decline while interest rates eventually rise.

There are some conceptual differences between the Administration forecast and the other economic forecasts. The Administration forecast assumes that the President's Budget proposals will be enacted. The 50 or so private forecasters in the Blue Chip Consensus make differing policy assumptions, but none would necessarily assume that the Budget is adopted in full. CBO is required to assume that current law will continue in making its projections, although CBO has recently begun to report alternative economic assumptions assuming a more



**Table 2–2. COMPARISON OF ECONOMIC ASSUMPTIONS**  
(Calendar years)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Nominal GDP:</b>												
2013 Budget <sup>1</sup> .....	15,106	15,779	16,522	17,397	18,448	19,533	20,651	21,689	22,666	23,659	24,688	25,760
Blue Chip .....	15,108	15,727	16,435	17,273	18,136	19,043	19,957	20,895	21,877	22,906	23,982	25,109
CBO .....	15,093	15,633	16,015	16,817	17,899	18,962	19,949	20,897	21,859	22,853	23,870	24,921
<b>Real GDP (year-over-year):</b>												
2013 Budget <sup>1</sup> .....	1.8	2.7	3.0	3.6	4.1	4.0	3.9	3.2	2.7	2.5	2.5	2.5
Blue Chip Consensus .....	1.7	2.2	2.6	2.9	2.9	2.9	2.7	2.5	2.5	2.5	2.5	2.5
CBO .....	1.7	2.2	1.0	3.6	4.9	4.2	3.3	2.8	2.6	2.5	2.4	2.4
<b>Real GDP (fourth-quarter-over-fourth-quarter):</b>												
2013 Budget <sup>1</sup> .....	1.7	3.0	3.0	4.0	4.2	3.9	3.8	2.8	2.6	2.5	2.5	2.5
Blue Chip .....	1.6	2.3	2.8	–	–	–	–	–	–	–	–	–
Federal Reserve Central Tendency .....	1.6–1.7	2.2–2.7	2.8–3.2	3.3–4.0	–	–	–	–	–	–	–	–
CBO .....	1.6	2.0	1.1	4.6	4.9	3.8	3.0	2.6	2.6	2.5	2.4	2.4
<b>GDP Price Index:<sup>2</sup></b>												
2013 Budget <sup>1</sup> .....	2.1	1.7	1.7	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Blue Chip .....	2.2	1.9	1.9	2.1	2.1	2.1	2.2	2.1	2.1	2.1	2.1	2.1
CBO .....	2.1	1.3	1.4	1.4	1.5	1.7	1.9	1.9	2.0	2.0	2.0	2.0
<b>Consumer Price Index (CPI-U):<sup>2</sup></b>												
2013 Budget <sup>1</sup> .....	3.2	2.2	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Blue Chip .....	3.2	2.1	2.1	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.5	2.5
CBO .....	3.2	1.7	1.5	1.5	1.7	2.0	2.2	2.3	2.3	2.3	2.3	2.3
<b>Unemployment Rate:<sup>3</sup></b>												
2013 Budget <sup>1</sup> .....	9.0	8.9	8.6	8.1	7.3	6.5	5.8	5.5	5.4	5.4	5.4	5.4
Blue Chip .....	9.0	8.7	8.3	7.7	7.1	6.6	6.2	6.0	6.0	6.0	6.0	6.0
Federal Reserve Central Tendency <sup>4</sup> .....	8.7	8.2–8.5	7.4–8.1	6.7–7.6	–	–	–	–	–	–	–	–
CBO .....	9.0	8.8	9.1	8.7	7.4	6.3	5.7	5.5	5.5	5.4	5.4	5.3
<b>Interest Rates:<sup>3</sup></b>												
<b>91-Day Treasury Bills (discount basis):</b>												
2013 Budget <sup>1</sup> .....	0.1	0.1	0.2	1.4	2.7	3.9	4.1	4.1	4.1	4.1	4.1	4.1
Blue Chip .....	0.1	0.1	0.4	1.9	3.0	3.4	3.7	3.7	3.7	3.7	3.7	3.7
CBO .....	0.1	0.1	0.1	0.4	1.6	2.6	3.2	3.6	3.8	3.8	3.8	3.8
<b>10-Year Treasury Notes:</b>												
2013 Budget <sup>1</sup> .....	2.8	2.8	3.5	3.9	4.4	4.7	5.0	5.1	5.1	5.1	5.3	5.3
Blue Chip .....	2.8	2.3	3.0	4.1	4.5	4.7	4.9	4.9	4.9	4.9	4.9	4.9
CBO .....	2.8	2.3	2.5	2.9	3.5	4.1	4.6	4.8	5.0	5.0	5.0	5.0

NA = Not Available

Sources: Administration; October 2011 and January 2012 *Blue Chip Economic Indicators*, Aspen Publishers, Inc.;

Federal Reserve Open Market Committee Press Release, January 25, 2012; and CBO, *The Budget and Economic Outlook*: January 2012.

<sup>1</sup> The 2013 Budget forecast was finalized in mid-November 2011.

<sup>2</sup> Year-over-year percent change.

<sup>3</sup> Annual averages, percent.

<sup>4</sup> Fourth quarter values.

plausible path for policy. The current law assumption implies, for example, that the 2001 and 2003 tax cuts expire at the end of 2012, which is why real GDP growth is so low and unemployment so high in the CBO projections for 2013.

In addition, the forecasts in the table were made at different times. The Administration projections were completed in mid-November. The three-month lag

between that date and the Budget release date occurs because the budget process requires a lengthy lead time to complete the estimates for agency programs that are incorporated in the Budget. Forecasts made at different dates will differ if there is economic news between the two dates that alters the economic outlook. The Blue Chip Consensus for 2012-2013 displayed in this table was the latest available, from early January; the Blue

Chip projections for 2014 to 2022, however, date to last October, as the Blue Chip extends its forecast beyond a two-year horizon only twice a year. The Federal Reserve forecast shown in Table 2-3 is from January 2012. The CBO forecast is from its January 2012 report.

**Real GDP Growth.**— In 2012, the Administration expects more growth than the other forecasters, mainly because the forecast assumes that all of the Budget proposals will be enacted. Other forecasters, make different assumptions. In 2013, the Administration holds growth steady while most other forecasters look for an increase. The Administration expects private demand to strengthen while fiscal policy shifts further toward constraint.

The most important difference among these forecasts is the expected rate of real GDP growth in the medium term. The Administration projects that real GDP will eventually recover most of the loss from the 2008-2009 recession. This implies a few years of higher than normal growth as real GDP makes up the lost ground. The Blue Chip average shows only a very limited recovery in this sense. In the Blue Chip projections, real GDP growth exceeds its long-run average only briefly throughout the 11-year forecast period, and much of the loss of real GDP experienced during the recession is permanent. Although somewhat higher than Blue Chip, CBO, anticipates only a partial recovery that would not return real GDP to the same level as in the Administration forecast.

In the long run, the real growth rates projected by the forecasters are similar. CBO projects a long-run growth rate of 2.4 percent per year, while the Blue Chip Consensus anticipates the same long-run growth rate as the Administration – 2.5 percent per year. Most of the difference between the Administration and CBO's long-run growth projection comes from a difference in the expected rate of growth of the labor force. Both forecasts assume that the labor force will grow more slowly than in the past because of population aging, but the Administration bases its population projections on the Census Bureau's projections, which tend to run about 0.1 percentage point higher than the CBO projections, which are based on population projections from the Social Security Administration.

All economic forecasts are subject to error, and the forecast errors are usually much larger than the forecast

differences discussed above. As discussed in chapter 3, past forecast errors among the Administration, CBO, and the Blue Chip have been roughly similar.

**Unemployment, Inflation, and Interest Rates.**— The Administration forecast of the unemployment rate was completed before the large drop in the unemployment rate in November-December 2011 and the downward revision to October's rate were known. The Blue Chip consensus forecast for 2012 has been lowered by 0.4 percentage points since mid-November when the Budget forecast was finalized. In the long-run perhaps reflecting slower average growth projections, the Blue Chip unemployment projection remains above the Administration's projections, but in 2012-2015 it is lower. The Federal Reserve forecast range for unemployment is also below the Administration's projections. These projections were made after observing the large decline in unemployment in late 2011. CBO's projections were completed after observing the decline in unemployment in late 2011. Nevertheless, the CBO projection of unemployment is only slightly below the Administration projection in 2012 and higher than the Administration in 2013-2015 reflecting the different policy assumptions underlying the two forecasts. Over time the Administration projects a return to the average unemployment rate that prevailed in the 1990s and 2000s.

The Administration, CBO, and the Blue Chip Consensus anticipate a subdued rate of inflation over the next two years. In the medium term, inflation is projected to return to a rate of around 2 percent per year, which is consistent with the Federal Reserve's long-run policy goal for inflation.

The forecasts are also similar in their projections for the path of interest rates. Short-term rates are expected to be near zero in 2011-2012, but then to increase beginning in 2013. The Administration projects a somewhat stronger rise in short-term rates than either the Blue Chip or CBO. The Administration projections are closer to market expectations as of late 2011. The interest rate on 10-year Treasury notes is projected to rise to 5.3 percent in the Administration projections. This is above the CBO and the Blue Chip projections.

### Changes in Economic Assumptions

Some of the economic assumptions underlying this Budget have changed compared with those used for the

2012 Budget, but many of the forecast values are similar, especially in the long run (see Table 2–3). The previous Budget anticipated more rapid growth in 2011–2014 than the current Budget. The recovery began as anticipated in 2009, but the pace of growth through 2011 was somewhat slower than expected. The Administration continues to believe that the economy will regain most of the ground

lost in 2008–2009. This implies rapid growth in the future continuing for a few years. That growth will help return unemployment to its long-run average. As in last year's projections, inflation is also projected to return to its long-run averages, while interest rates, measured in real terms, also return to their historical averages.

**Table 2–3. COMPARISON OF ECONOMIC ASSUMPTIONS IN THE 2012 AND 2013 BUDGETS**

(Calendar years; dollar amounts in billions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Nominal GDP:</b>											
2012 Budget Assumptions <sup>1</sup> .....	15,037	15,819	16,780	17,803	18,799	19,770	20,706	21,619	22,562	23,542	24,565
2013 Budget Assumptions .....	15,106	15,779	16,522	17,397	18,448	19,533	20,651	21,689	22,666	23,659	24,688
<b>Real GDP (2005 dollars):</b>											
2012 Budget Assumptions <sup>1</sup> .....	13,380	13,868	14,475	15,104	15,676	16,201	16,663	17,092	17,519	17,957	18,406
2013 Budget Assumptions .....	13,323	13,687	14,097	14,606	15,211	15,821	16,431	16,952	17,403	17,844	18,290
<b>Real GDP (percent change):<sup>2</sup></b>											
2012 Budget Assumptions .....	2.7	3.6	4.4	4.3	3.8	3.3	2.9	2.6	2.5	2.5	2.5
2013 Budget Assumptions .....	1.8	2.7	3.0	3.6	4.1	4.0	3.9	3.2	2.7	2.5	2.5
<b>GDP Price Index (percent change):<sup>2</sup></b>											
2012 Budget Assumptions .....	1.3	1.5	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8
2013 Budget Assumptions .....	2.1	1.7	1.7	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8
<b>Consumer Price Index (all-urban; percent change):<sup>2</sup></b>											
2012 Budget Assumptions .....	1.3	1.8	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
2013 Budget Assumptions .....	3.2	2.2	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
<b>Civilian Unemployment Rate (percent):<sup>3</sup></b>											
2012 Budget Assumptions .....	9.3	8.6	7.5	6.6	5.9	5.5	5.3	5.3	5.3	5.3	5.3
2013 Budget Assumptions .....	9.0	8.9	8.6	8.1	7.3	6.5	5.8	5.5	5.4	5.4	5.4
<b>91-day Treasury bill rate (percent):<sup>3</sup></b>											
2012 Budget Assumptions .....	0.2	1.0	2.6	3.7	4.0	4.1	4.1	4.1	4.1	4.1	4.1
2013 Budget Assumptions .....	0.1	0.1	0.2	1.4	2.7	3.9	4.1	4.1	4.1	4.1	4.1
<b>10-year Treasury note rate (percent):<sup>3</sup></b>											
2012 Budget Assumptions .....	3.0	3.6	4.2	4.6	5.0	5.2	5.3	5.3	5.3	5.3	5.3
2013 Budget Assumptions .....	2.8	2.8	3.5	3.9	4.4	4.7	5.0	5.1	5.1	5.1	5.3

<sup>1</sup> Adjusted for July 2011 NIPA revisions.

<sup>2</sup> Calendar year over calendar year.

<sup>3</sup> Calendar year average.



### 3. INTERACTIONS BETWEEN THE ECONOMY AND THE BUDGET

The economy and the budget are interrelated. Both budget outlays and the tax structure have substantial effects on national output, employment, and inflation; and economic conditions significantly affect the budget in various ways.

Because of the complex interrelationships between the budget and the economy, budget estimates depend to a very significant extent upon assumptions about the economy. This chapter attempts to quantify the relationship between macroeconomic outcomes and budget outcomes and to illustrate the challenges that uncertainty about the future path of the economy poses for making budget projections.<sup>1</sup>

The first section of the chapter describes how changes in economic variables result in changes in receipts, outlays, and the deficit. The second section presents information on forecast errors for growth, inflation, and interest rates and how these forecast errors compare to those in forecasts made by the Congressional Budget Office (CBO) and the private-sector Blue Chip Consensus forecast. The third section presents specific alternatives to the current Administration forecast—both more optimistic and less optimistic with respect to real economic growth and unemployment—and describes the resulting effects on the deficit. The fourth section shows a probabilistic range of budget outcomes based on past errors in projecting the deficit. The last section discusses the relationship between structural and cyclical deficits, showing how much of the actual deficit is related to the economic cycle (e.g., the recent recession) and how much would persist even if the economy were at full employment.

#### Sensitivity of the Budget to Economic Assumptions

Both receipts and outlays are affected by changes in economic conditions. Budget receipts vary with individual and corporate incomes, which respond both to real economic growth and inflation. At the same time, outlays for many Federal programs are directly linked to developments in the economy. For example, most retirement and other social insurance benefit payments are tied by law to cost-of-living indices. Medicare and Medicaid outlays are

affected directly by the price of medical services. Interest on the debt is linked to market interest rates and the size of the budget surplus or deficit, both of which in turn are influenced by economic conditions. Outlays for certain benefits such as unemployment compensation and the Supplemental Nutrition Assistance Program vary with the unemployment rate.

This sensitivity complicates budget planning because differences in economic assumptions lead to changes in the budget projections. Economic forecasting inherently entails uncertainty. It is therefore useful to examine the implications of possible changes in economic assumptions. Many of the budgetary effects of such changes are fairly predictable, and a set of general principles or “rules of thumb” embodying these relationships can aid in estimating how changes in the economic assumptions would alter outlays, receipts, and the surplus or deficit. These rules of thumb should be understood as suggesting orders of magnitude; they do not account for potential secondary effects.

The rules of thumb show how the changes in economic variables affect Administration estimates for receipts and outlays, holding other factors constant. They are not a prediction of how receipts or outlays would actually turn out if the economic changes actually materialized. The rules of thumb are based on a fixed budget policy that is not always a good predictor of what might actually happen to the budget should the economic outlook change substantially. For example, unexpected downturns in real economic growth, and attendant job losses, usually give rise to legislative actions to stimulate the economy with additional countercyclical policies. Also, the rules of thumb do not reflect certain “technical” changes that often accompany the economic changes. For example, changes in capital gains realizations often accompany changes in the economic outlook. On the spending side of the budget, the rules of thumb do not capture changes in deposit insurance outlays, even though bank failures are generally associated with weak economic growth and rising unemployment.

Economic variables that affect the budget do not always change independently of one another. Output and employment tend to move together in the short run: a high rate of real GDP growth is generally associated with a declining rate of unemployment, while slow or negative growth is usually accompanied by rising unemployment, a relationship known as Okun’s Law. In the long run, however, changes in the average rate of growth of real GDP are mainly due to changes in the rates of growth of productivity and the labor force, and are not necessarily associated with changes in the average rate of unemployment. Expected inflation and interest rates are also closely interrelated: a higher expected rate of inflation increases nominal interest rates, while lower expected inflation reduces nominal interest rates.

<sup>1</sup> While this chapter highlights uncertainty with respect to budget projections in the aggregate, estimates for many programs capture uncertainty using stochastic modeling. Stochastic models measure program costs as the probability-weighted average of costs under different scenarios, with economic, financial, and other variables differing across scenarios. Stochastic modeling is essential to properly measure the cost of programs that respond asymmetrically to deviations of actual economic and other variables from forecast values. In such programs, the Federal Government is subject to “one-sided bets” where costs go up when variables move in one direction but do not go down when they move in the opposite direction. The cost estimates for the Pension Benefit Guarantee Corporation, student loan programs, the Troubled Asset Relief Program (TARP), and agriculture programs with price triggers all employ stochastic modeling.

Changes in real GDP growth or inflation have a much greater cumulative effect on the budget if they are sustained for several years than if they last for only one year. However, even temporary changes can have permanent effects if they permanently raise the level of the tax base or the level of Government spending. Moreover, temporary economic changes that affect the deficit or surplus change the level of the debt, affecting future interest payments on the debt. Highlights of the budgetary effects of these rules of thumb are shown in Table 3–1.

For real growth and employment:

- The first block shows the effect of a temporary reduction in real GDP growth by one percentage point sustained for one year, followed by a recovery of GDP to the base-case level (the Budget assumptions) over the ensuing two years. In this case, the unemployment rate is assumed to rise by one-half percentage point relative to the Budget assumptions by the end

**Table 3–1. SENSITIVITY OF THE BUDGET TO ECONOMIC ASSUMPTIONS**

(Fiscal years; in billions of dollars)

Budget effect	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total of Effects, 2012–2022
<b>Real Growth and Employment</b>												
<b>Budgetary effects of 1 percent lower real GDP growth:</b>												
(1) For calendar year 2012 only, with real GDP recovery in 2013–14: <sup>1</sup>												
Receipts .....	-14.1	-21.8	-10.2	-1.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	-45.9
Outlays .....	3.6	8.4	4.9	2.0	2.4	2.7	2.8	2.8	2.9	3.0	3.2	38.8
Increase in deficit (+) .....	17.7	30.2	15.2	3.1	2.2	2.5	2.6	2.7	2.8	2.8	3.0	84.7
(2) For calendar year 2012 only, with no subsequent recovery: <sup>1</sup>												
Receipts .....	-14.1	-29.3	-33.9	-36.1	-38.5	-40.9	-43.2	-45.6	-48.1	-50.6	-53.2	-433.5
Outlays .....	3.6	10.2	12.4	16.1	21.5	26.5	31.2	35.2	39.4	43.9	48.7	288.6
Increase in deficit (+) .....	17.7	39.4	46.3	52.3	60.0	67.3	74.4	80.8	87.5	94.4	101.9	722.1
(3) Sustained during 2012 - 2022, with no change in unemployment:												
Receipts .....	-14.2	-45.3	-84.2	-127.8	-177.0	-231.5	-291.1	-355.2	-423.4	-496.2	-574.3	-2,820.5
Outlays .....	-0.4	-0.8	-0.1	3.2	10.3	18.9	29.3	41.4	56.3	74.0	95.6	327.7
Increase in deficit (+) .....	13.8	44.5	84.2	131.0	187.3	250.5	320.4	396.6	479.7	570.2	669.9	3,148.2
<b>Inflation and Interest Rates</b>												
<b>Budgetary effects of 1 percentage point higher rate of:</b>												
(4) Inflation and interest rates during calendar year 2012 only:												
Receipts .....	19.7	39.6	39.1	37.5	39.8	42.5	45.1	47.8	50.4	53.4	56.1	470.9
Outlays .....	30.0	52.3	42.1	40.3	39.1	38.5	36.0	36.0	34.4	35.3	35.7	419.6
Decrease in deficit (-) .....	10.3	12.7	2.9	2.8	-0.7	-4.0	-9.1	-11.8	-16.0	-18.1	-20.4	-51.3
(5) Inflation and interest rates, sustained during 2012 - 2022:												
Receipts .....	19.7	61.0	106.1	153.4	208.0	267.6	334.2	407.7	486.2	570.3	659.3	3,273.4
Outlays .....	26.4	78.0	120.2	161.8	205.0	247.3	288.2	334.5	381.0	430.3	484.9	2,757.4
Decrease in deficit (-) .....	6.7	17.0	14.1	8.4	-3.1	-20.3	-46.0	-73.2	-105.2	-140.1	-174.4	-516.0
(6) Interest rates only, sustained during 2012 - 2022:												
Receipts .....	5.5	16.1	23.5	28.6	34.0	38.5	43.3	50.2	56.1	59.8	62.6	418.1
Outlays .....	18.5	53.4	75.5	93.8	111.7	130.2	145.7	160.9	175.7	191.1	206.1	1,362.6
Increase in deficit (+) .....	13.0	37.3	51.9	65.1	77.7	91.7	102.5	110.7	119.6	131.3	143.5	944.5
(7) Inflation only, sustained during 2012 - 2022:												
Receipts .....	14.2	44.7	82.1	124.1	173.1	227.9	289.4	355.6	427.9	508.0	593.7	2,840.5
Outlays .....	7.9	24.8	45.2	69.1	95.3	120.3	147.2	180.3	214.7	251.6	294.8	1,451.3
Decrease in deficit (-) .....	-6.2	-19.8	-36.9	-54.9	-77.8	-107.5	-142.2	-175.3	-213.2	-256.4	-298.9	-1,389.2
<b>Interest Cost of Higher Federal Borrowing</b>												
(8) Outlay effect of \$100 billion increase in borrowing in 2012 .....	0.1	0.4	1.2	2.5	3.9	4.6	4.9	5.2	5.4	5.7	5.9	40.0

\* \$50 million or less.

<sup>1</sup> The unemployment rate is assumed to be 0.5 percentage point higher per 1.0 percent shortfall in the level of real GDP.



of the first year, then return to the base case rate over the ensuing two years. After real GDP and the unemployment rate have returned to their base case levels, most budget effects vanish except for persistent out-year interest costs associated with larger near-term deficits.

- The second block shows the effect of a reduction in real GDP growth by one percentage point sustained for one year, with no subsequent “catch up,” accompanying a permanent increase in the natural rate of unemployment (and of the actual unemployment rate) of one-half percentage point relative to the Budget assumptions. In this scenario, the level of GDP and taxable incomes are permanently lowered by the reduced growth rate in the first year. For that reason and because unemployment is permanently higher, the budget effects (including growing interest costs associated with larger deficits) continue to grow in each successive year.
- The budgetary effects are much larger if the growth rate of real GDP is permanently reduced by one percentage point even leaving the unemployment rate

unchanged, as might result from a shock to productivity growth. These effects are shown in the third block. In this example, the cumulative increase in the budget deficit is many times larger than the effects in the first and second blocks.

For inflation and interest rates:

- The fourth block shows the effect of a one percentage point higher rate of inflation and one percentage point higher nominal interest rates maintained for the first year only. In subsequent years, the price level and nominal GDP would both be one percentage point higher than in the base case, but interest rates and future inflation rates are assumed to return to their base case levels. Receipts increase by somewhat more than outlays. This is partly due to the fact that outlays for annually appropriated spending are assumed to remain constant when projected inflation changes. Despite the apparent implication of these estimates, inflation cannot be relied upon to lower the budget deficit, mainly because policy-makers have traditionally prevented inflation

**Table 3-2. FORECAST ERRORS, JANUARY 1982-PRESENT**

REAL GDP ERRORS			
2-Year Average Annual Real GDP Growth	Admin.	CBO	Blue Chip
Mean Error .....	0.0	-0.1	-0.2
Mean Absolute Error .....	1.2	1.1	1.1
Root Mean Square Error .....	1.6	1.5	1.5
6-Year Average Annual Real GDP Growth			
Mean Error .....	0.1	-0.2	-0.2
Mean Absolute Error .....	0.8	0.8	0.8
Root Mean Square Error .....	1.0	1.0	1.0
INFLATION ERRORS			
2-Year Average Annual Change in the GDP Price Index	Admin.	CBO	Blue Chip
Mean Error .....	0.3	0.3	0.5
Mean Absolute Error .....	0.7	0.8	0.8
Root Mean Square Error .....	0.9	0.9	1.0
6-Year Average Annual Change in the GDP Price Index			
Mean Error .....	0.4	0.6	0.8
Mean Absolute Error .....	0.7	0.9	1.1
Root Mean Square Error .....	0.9	1.0	1.3
INTEREST RATE ERRORS			
2-Year Average 91-Day Treasury Bill Rate	Admin.	CBO	Blue Chip
Mean Error .....	0.3	0.5	0.7
Mean Absolute Error .....	1.0	0.9	1.1
Root Mean Square Error .....	1.3	1.2	1.3
6-Year Average 91-Day Treasury Bill Rate			
Mean Error .....	0.4	0.9	1.1
Mean Absolute Error .....	0.9	1.2	1.2
Root Mean Square Error .....	1.1	1.3	1.4

from permanently eroding the real value of spending.

- In the fifth block, the rate of inflation and the level of nominal interest rates are higher by one percentage point in all years. As a result, the price level and nominal GDP rise by a cumulatively growing percentage above their base levels. In this case, again the effect on receipts is more than the effect on outlays. As in the previous case, these results assume that annually appropriated spending remains fixed under the discretionary spending limits. Over the time period covered by the budget, leaving the discretionary limits unchanged would significantly erode the real value of this category of spending.
- The effects of a one percentage point increase in interest rates alone are shown in the sixth block. The outlay effect mainly reflects higher interest costs for Federal debt. The receipts portion of this rule-of-thumb is due to the Federal Reserve's deposit of earnings on its securities portfolio and the effect of interest rate changes on both individuals' income (and taxes) and financial corporations' profits (and taxes).
- The seventh block shows that a sustained one percentage point increase in CPI and GDP price index inflation decreases cumulative deficits substantially, due in part to the assumed erosion in the real value of appropriated spending. Note that the separate

effects of higher inflation and higher interest rates shown in the sixth and seventh blocks do not sum to the effects for simultaneous changes in both shown in the fifth block. This is because the gains in budget receipts due to higher inflation result in higher debt service savings when interest rates are also assumed to be higher in the fifth block than when interest rates are assumed to be unchanged in the seventh block.

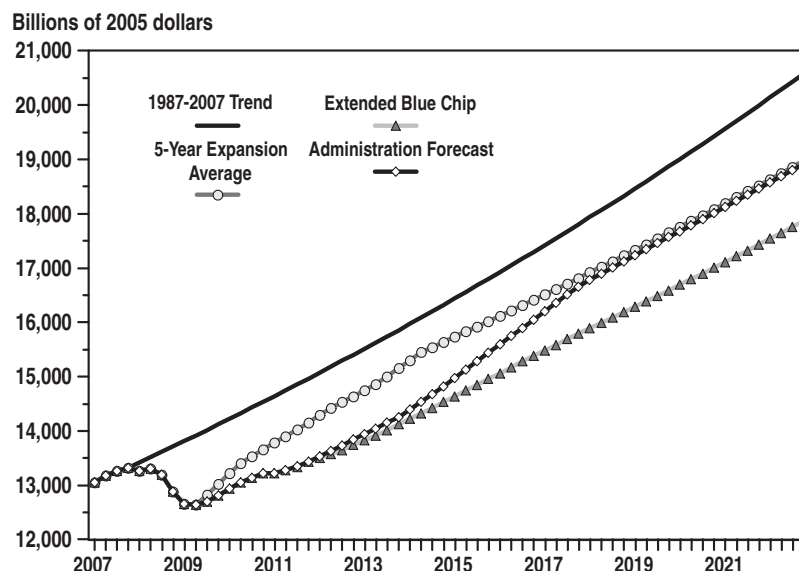
- The last entry in the table shows rules of thumb for the added interest cost associated with changes in the budget deficit, holding interest rates and other economic assumptions constant.

The effects of changes in economic assumptions in the opposite direction are approximately symmetric to those shown in the table. The impact of a one percentage point lower rate of inflation or higher real growth would have about the same magnitude as the effects shown in the table, but with the opposite sign.

### Forecast Errors for Growth, Inflation, and Interest Rates

As can be seen in Table 3-1, the single most important variable that affects the accuracy of the budget projections is the forecast of the growth rate of real GDP. The rate of inflation and the level of interest rates also have substantial effects on the accuracy of projections. Table

**Chart 3-1. Real GDP: Alternative Projections**





**Table 3-3. BUDGET EFFECTS OF ALTERNATIVE SCENARIOS**  
(Fiscal years; dollar amounts in billions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Alternative Budget Deficit Projections:											
Administration Economic Assumptions .....	1,327	901	668	610	649	612	575	626	658	681	704
Percent of GDP .....	8.5%	5.5%	3.9%	3.4%	3.4%	3.0%	2.7%	2.8%	2.8%	2.8%	2.8%
Alternative Scenario 1 .....	1,152	701	441	402	481	492	490	553	587	608	630
Percent of GDP .....	7.4%	4.3%	2.6%	2.2%	2.5%	2.4%	2.3%	2.5%	2.5%	2.5%	2.5%
Alternative Scenario 2 .....	1,341	927	715	704	801	830	851	940	1002	1053	1106
Percent of GDP .....	8.6%	5.7%	4.2%	3.9%	4.2%	4.1%	4.0%	4.2%	4.3%	4.3%	4.3%

3-2 shows errors in short- and long-term projections for past Administrations, and compares these errors to those of CBO and the Blue Chip Consensus of private forecasters for real GDP, inflation and short-term interest rates.<sup>2</sup>

Over both a two-year and six-year horizon, the average annual real GDP growth rate was very slightly overestimated by the Administration and slightly underestimated by the CBO and Blue Chip in the forecasts made since 1982. Overall, the differences between the three forecasters were minor. The mean absolute error in the annual average growth rate was about 1.5 percent per year for all forecasters for two-year projections, and was about one-third smaller for all three for the six-year projections. The greater accuracy in the six-year projections could reflect a tendency of real GDP to revert at least partly to trend, though the overall evidence on whether GDP is mean reverting is mixed. Another way to interpret the result is that it is hard to predict GDP around turning points in the business cycle, but somewhat easier to project the six-year growth rate based on assumptions about the labor force, productivity, and other factors that affect GDP.

Inflation, as measured by the GDP price index, was overestimated by all forecasters for both the two-year and six-year projections, with larger errors for the six-year projections. This reflects the gradual disinflation over the 1980s and early 1990s, which was greater than most forecasters expected. Average errors for all three sets of forecasts since 1994 were close to zero (not shown).

The interest rate on the 91-day Treasury bill was also overestimated by all three forecasters, with errors larger for the 6-year time horizon. Again this reflects the secular decline in interest rates over the past 30 years, reflecting lower inflation for most of the period, as well as a decline in real interest rates since 2000 resulting from weakness in the economy and Federal Reserve policy. The errors were somewhat less for the Administration than for CBO and the Blue Chip forecasts.

<sup>2</sup> Two-year errors for real GDP and the GDP price index are the average annual errors in percentage points for year-over-year growth rates for the current year and budget year. For interest rates, the error is based on the average error for the level of the 91-day Treasury bill rate for the two-year and six-year period. Administration forecasts are from the budgets released starting in February 1982 (1983 Budget) and through February 2009 (2010 Budget), so that the last year included in the projections is 2010. The six-year forecasts are constructed similarly, but the last forecast used is from February 2005 (2006 Budget). CBO forecasts are from 'The Budget and Economic Outlook' publications in January each year, and the Blue Chip forecasts are from their January projections.

### Alternative Scenarios

The rules of thumb described above can be used in combination to show the effect on the budget of alternative economic scenarios. Considering explicit alternative scenarios can also be useful in gauging some of the risks to the current budget projections. For example, the strength of the recovery over the next few years remains highly uncertain. Those possibilities are explored in the two alternative scenarios presented in this section and which are shown in Chart 3-1.

In the first alternative, the projected growth rate follows the average strength of the expansions that followed previous recessions in the period since World War II. Real growth beginning in the third quarter of 2009, the start of the current recovery, averages 5.9 percent over the next four quarters, followed by growth rates of 3.8 percent, 3.7 percent, 3.1 percent, and 3.8 percent, respectively, over succeeding four-quarter intervals. The unemployment rate is also adjusted for the difference in growth rates using Okun's Law. In this case, the level of real GDP is substantially higher at the beginning of the current forecast period than in the Administration's projections, because the current recovery got off to a relatively slow start in 2009-2010. However, real GDP growth in the Administration's projections is similar to this alternative in the out years, and the unemployment rates are also similar by the end of the period. The Administration is projecting an average postwar recovery, but one that takes longer to gain traction because of the depth of the recession and the lingering effects of the financial crisis.

The second alternative scenario assumes that real GDP growth and unemployment beginning in 2010:Q4 follow the projections in the January Blue Chip forecast through the end of 2013 and that growth in 2014-2022 follows the path laid out in the October 2011 extension of the Blue Chip forecast. In this case, after 2011, the level of GDP remains lower than the Administration's forecast throughout the projection period. This alternative does not include a real recovery from the loss of output during the 2008-2009 downturn. Growth returns to normal, but without a substantial catch-up to make up for previous output losses. In effect, this alternative assumes there was a permanent loss of output resulting from the shocks experienced during the downturn.

Table 3-3 shows the budget effects of these alternative scenarios compared with the Administration's

**Table 3-4. THE STRUCTURAL BALANCE**  
(Fiscal years; in billions of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Unadjusted surplus (-) or deficit .....	160.7	458.6	1,412.7	1,293.5	1,299.6	1,326.9	901.4	667.8	609.7	648.8	612.4	575.5	625.7	657.9	680.7	704.3
Cyclical component .....	-106.3	-24.4	375.4	502.4	527.3	572.6	584.4	593.3	452.5	300.0	159.3	47.6	13.4	1.3	0.0	0.0
Structural surplus (-) or deficit .....	267.0	483.0	1,037.3	791.1	772.3	754.4	317.0	74.5	157.2	348.7	453.1	527.8	612.4	656.6	680.7	704.3

	(Fiscal years; percent of Gross Domestic Product)															
Unadjusted surplus (-) or deficit .....	1.2%	3.2%	10.1%	9.0%	8.7%	8.5%	5.5%	3.9%	3.4%	3.4%	3.0%	2.7%	2.8%	2.8%	2.8%	2.8%
Cyclical component .....	-0.8%	-0.2%	2.7%	3.5%	3.5%	3.7%	3.6%	3.5%	2.5%	1.6%	0.8%	0.2%	0.1%	0.0%	0.0%	0.0%
Structural surplus (-) or deficit .....	1.9%	3.4%	7.4%	5.5%	5.2%	4.8%	1.9%	0.4%	0.9%	1.8%	2.2%	2.5%	2.7%	2.8%	2.8%	2.8%

NOTE: The NAIRU is assumed to be 5.4%.

economic forecast. Under the first alternative, budget deficits are modestly lower in each year compared to the Administration’s forecast. In the second alternative, the deficit becomes progressively larger than the Administration’s projection.

Many other scenarios are possible, of course, but the point is that the most important influences on the budget projections beyond the next year or two are the rate at which output and employment recover from the recession and the extent to which potential GDP returns to its pre-recession trend.

**Uncertainty and the Deficit Projections**

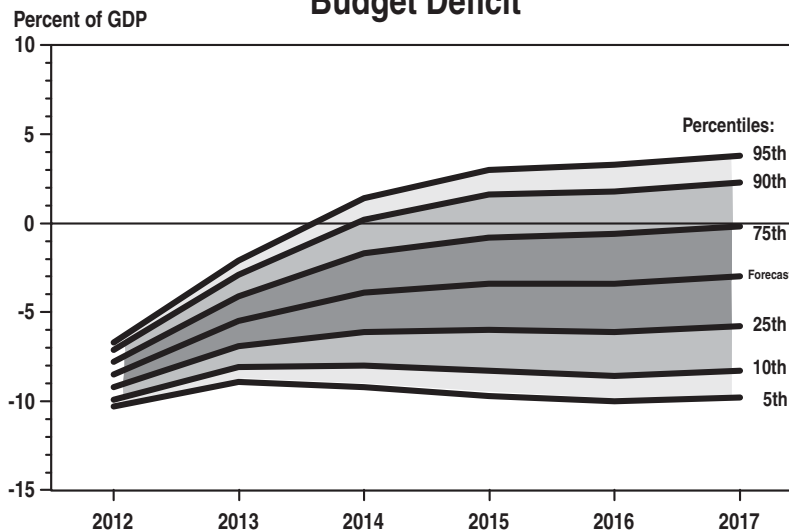
The accuracy of budget projections depends not only on the accuracy of economic projections, but also on technical factors and the differences between proposed policy and enacted legislation. Chapter 30 provides detailed information on these factors for the budget year projections (Table 30-6), and also shows how the deficit projections compared to actual outcomes, on average, over a five-year window using historical data from 1982 to 2011 (Table

30-7). The error measures can be used to show a probabilistic range of uncertainty of what the range of deficit outcomes may be over the next five years relative to the Administration’s deficit projection. Chart 3-2 shows this cone of uncertainty, which is constructed under the assumption that future forecast errors would be governed by the normal distribution with a mean of zero and standard error equal to the root mean squared error, as a percent of GDP, of past forecasts. The deficit is projected to be 3.0 percent of GDP in 2017, but has a 90 percent chance of being within a range of a surplus of 3.8 percent of GDP and a deficit of 9.8 percent of GDP.

**Structural and Cyclical Deficits**

As shown above, the budget deficit is highly sensitive to the business cycle. When the economy is operating below its potential and the unemployment rate exceeds the level consistent with price stability, receipts are lower, outlays are higher, and the deficit is larger than it would be otherwise. These features serve as “automatic stabilizers” for the economy by restraining output when the

**Chart 3-2. Range of Uncertainty for the Budget Deficit**



economy threatens to overheat and cushioning economic downturns. They also make it hard to judge the overall stance of fiscal policy simply by looking at the unadjusted budget deficit.

An alternative measure of the budget deficit is called the structural deficit. This measure provides a more useful perspective on the stance of fiscal policy than does the unadjusted unified budget deficit. The portion of the deficit traceable to the automatic effects of the business cycle is called the cyclical component. The remaining portion of the deficit is called the structural deficit. The structural deficit is a better gauge of the underlying stance of fiscal policy than the unadjusted unified deficit because it removes most of the effects of the business cycle. So, for example, the structural deficit would include fiscal policy changes such as the 2009 Recovery Act, but not the automatic changes in unemployment insurance or reduction in tax receipts that would have occurred without the Act.

Estimates of the structural deficit, shown in Table 3-4, are based on the historical relationship between changes in the unemployment rate and real GDP growth, as well as relationships of unemployment and real GDP growth with receipts and outlays. These estimated relationships take account of the major cyclical changes in the economy and their effects on the budget, but they do not reflect all the possible cyclical effects on the budget, because economists have not been able to identify the cyclical factor in some of these other effects. For example, the sharp decline in the stock market in 2008 pulled down capital gains-related receipts and increased the deficit in 2009 and beyond. Some of this decline is cyclical in nature, but economists have not pinned down the cyclical component of the stock market with any precision, and for that reason, all of the stock market's contribution to receipts is counted in the structural deficit.

Another factor that can affect the deficit and is related to the business cycle is labor force participation. Since the official unemployment rate does not include workers who have left the labor force, the conventional measures

of potential GDP, incomes, and Government receipts understate the extent to which potential work hours are under-utilized because of a decline in labor force participation. The key unresolved question here is to what extent changes in labor force participation are cyclical and to what extent they are structural. By convention, in estimating the structural budget deficit, all changes in labor force participation are treated as structural.

There are also lags in the collection of tax revenue that can delay the impact of cyclical effects beyond the year in which they occur. The result is that even after the unemployment rate has fallen, receipts may remain cyclically depressed for some time until these lagged effects have dissipated. The recent recession has added substantially to the estimated cyclical component of the deficit, but for all the reasons stated above, the cyclical component is probably an understatement. As the economy recovers, the cyclical deficit is projected to decline and after unemployment reaches 5.4 percent, the level assumed to be consistent with stable inflation, the estimated cyclical component vanishes, leaving only the structural deficit, although some lagged cyclical effects would arguably still be present.

Despite these limitations, the distinction between cyclical and structural deficits is helpful in understanding the path of fiscal policy. The large increase in the deficit in 2009 and 2010 is due to a combination of both components of the deficit. There is a large increase in the cyclical component because of the rise in unemployment. That is what would be expected considering the severity of the recent recession. Finally, there is a large increase in the structural deficit because of the policy measures taken to combat the recession. This reflects the Government's decision to make active use of fiscal policy to lessen the severity of the recession and to hasten economic recovery. In 2011–2017, the cyclical component of the deficit is projected to decline sharply as the economy recovers. The structural deficit shrinks during 2011–2013 as the temporary spending and tax measures in the Recovery Act end.



## 4. FINANCIAL STABILIZATION EFFORTS AND THEIR BUDGETARY EFFECTS

In response to the financial crisis of 2008, the U.S. Government took unprecedented and decisive action to mitigate damage to the U.S. economy and financial markets. The Department of the Treasury, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Securities and Exchange Commission, and the Commodity Futures Trading Commission worked cooperatively under the direction of the Administration to expand access to credit, strengthen financial institutions, restore confidence in U.S. financial markets, and stabilize the housing sector. In 2010, the President signed into law comprehensive Wall Street reform to ensure that the Government has the tools and authority to prevent another crisis of this magnitude, to resolve significant financial institution failures more effectively, and to protect consumers of financial products. In 2011, the Administration continued its work to operationalize these Wall Street reforms, including taking the necessary steps to ensure that the Consumer Financial Protection Bureau is able to exercise the full range of its statutory consumer protection authorities.

This chapter provides a summary of key Government programs supporting economic recovery and financial market reforms, followed by a report analyzing the cost and budgetary effects of the Treasury's Troubled Asset Relief Program (TARP), consistent with Sections 202 and 203 of the Emergency Economic Stabilization Act (EESA) of 2008 (P.L. 110-343), as amended. This report analyzes transactions as of November 30, 2011, and expected transactions as reflected in the Budget. The TARP costs discussed in the report and included in the Budget are the estimated present value of the TARP investments, reflecting the actual and expected dividends, interest, and principal redemptions the Government receives against its investments; this credit reform treatment of TARP transactions is authorized by Section 123 of EESA.

The Treasury's authority to make new TARP commitments expired on October 3, 2010. However, Treasury continues to manage the outstanding TARP investments, and is authorized to expend additional TARP funds pursuant to obligations entered into prior to October 3, 2010. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act reduced total TARP purchase authority to \$475 billion.

The Administration's current estimate of TARP's deficit cost for its cumulative \$470.7 billion in obligations is \$68 billion (see Tables 4-1 and 4-7). This estimated direct impact of TARP on the deficit has been reduced by \$273 billion from the highest cost estimate, published in the Mid-Session Review of the 2010 Budget (2010 MSR), due to improvements in the estimated returns on TARP investments and lower overall TARP obligations. The

Treasury has received higher-than-expected repayments and redemptions from TARP recipients. Notably, a total of \$245 billion was invested in banking institutions, and as of December 31, 2011, Treasury had recovered more than \$258 billion from these institutions through repayments, dividends, interest, and other income. The 2012 MSR estimated a \$47 billion deficit cost of purchases and guarantees associated with an estimated \$471 billion in obligations. Section 123 of EESA requires TARP costs to be estimated on a net present value basis adjusted to reflect a premium for market risk. As investments are liquidated, their actual costs (including any market risk effects) become known and are reflected in reestimates. It is likely that the total cost of TARP to taxpayers will eventually be lower than current estimates using the market-risk adjusted discount rate, but that cost will not be fully known until all TARP investments have been extinguished. (See Table 4-9 for an estimate of TARP subsidy costs stripped of the market-risk adjustment.)

### Progress in Implementation of Wall Street Reforms

On July 21, 2010, just over a year after the Administration delivered its financial reform proposal to Congress, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act<sup>1</sup> (the "Wall Street Reform Act" or the "Act"). The Act implements the Administration's critical objectives, which include: to help prevent future financial crises in part by filling gaps in the U.S. regulatory regime; to better protect consumers of financial products and services; to prevent unnecessary and harmful risk taking that threatens the economy; and to provide the Government with more effective tools to manage financial crises. Important milestones in the implementation of the Act include:

*Orderly Liquidation Authority (OLA):* The Act makes clear that no financial firm will be considered "too big to fail" in the future. Instead, the Federal Deposit Insurance Corporation (FDIC) now has the ability to unwind failing systemically-significant, nonbank financial institutions in an orderly manner to prevent widespread disruptions to U.S. financial stability. Through its new orderly liquidation authority under the Act, the FDIC serves as receiver of financial institutions whose failure is determined to pose a significant systemic risk to U.S. financial stability. On July 6, 2011, the FDIC, in consultation with the Financial Stability Oversight Council (FSOC), approved a final rule with respect to OLA which, among other things, clarified provisions governing clawback of executive compensation and identified the treatment of secured creditors and contingent claims. On September 13, 2011, the FDIC and the Federal Reserve Board (FRB) issued a joint final rule to implement resolution plan requirements or

<sup>1</sup> P.L. 111-203.



“living wills” for certain nonbank financial companies and bank holding companies, which in the case of default are essential to ensuring organized and least-costly resolutions for large and complex financial institutions. Moreover, as of preparation of this Budget, the FDIC, in consultation with the FSOC, had approved a Notice of Proposed Rulemaking (NPR) governing the calculation of the Maximum Obligation Limit, which would dictate the amount that the FDIC may borrow from Treasury in the event of an orderly liquidation. The Act requires that all net costs of liquidation be recovered by assessing fees after the fact on large financial institutions so that taxpayers incur no costs. According to Title II of the Act, FDIC costs associated with administering OLA are covered by the FSOC and are included in this Budget.

While the Budget includes an estimated cost to the Government that is based on the probability of default under this enhanced orderly liquidation authority, the total costs of any liquidation will be, by law, recovered in full, so there is no cost to the taxpayer. The displayed cost from this authority of \$19 billion over the budget period is due to the fact that cost recovery occurs only after liquidation expenses are incurred.

*Monitoring Systemic Risk:* The Act also established the Financial Stability Oversight Council (FSOC) to identify, monitor, and respond to emerging threats to U.S. financial stability. The FSOC is charged with coordinating the financial regulatory framework across the various Federal agencies by harmonizing prudential standards and addressing gaps in the U.S. regulatory regime. The FSOC in an independent council chaired by the Secretary of the Treasury, with the heads of the Federal financial regulators and an independent insurance expert serving as voting members. The FSOC has held 12 meetings, with the initial focus on fulfilling statutory requirements established by the Wall Street Reform Act. The FSOC has moved quickly, while emphasizing the importance of transparency and stakeholder collaboration throughout the process. As part of its macro-prudential mandate, the FSOC published an NPR in January 2011, establishing the criteria for which nonbank, systemically-significant financial institutions will be designated for heightened supervision by the Federal Reserve. This rule received a significant number of public comments and, therefore, the FSOC re-proposed this NPR in October 2011 in order to bring more clarity to the market and provide market participants additional time to comment on this substantial rulemaking. On July 18, 2011, the FSOC also finalized a rule regarding the criteria for designating financial market utilities (FMU), such as clearinghouses, as systemically important, thus requiring designated FMUs to meet certain risk management standards and undergo additional examinations. The FSOC has also conducted studies and made recommendations on a number of topics, notably the effective implementation of the Volcker Rule as established in the Wall Street Reform Act. The Volcker Rule was authorized to reduce risk-taking and increase stability in the banking sector by prohibiting Federally-insured banking institutions, subject to certain exceptions, from engaging in proprietary trading and investing

in hedge funds and private equity firms. Going forward, the FSOC will continue to monitor and track the prevalent risk in the financial system with a focus on housing, commodity market volatility, the European financial markets, and the U.S. fiscal position.

The Act established the Financial Research Fund (FRF) to fund the FSOC and the Office of Financial Research (OFR), which is a component of the FSOC created, to improve the quality of financial data available to policymakers and to facilitate more robust and sophisticated analysis of the financial system. The OFR is in the process of comprehensively cataloguing the data that are currently collected by U.S. financial regulators in order to identify deficiencies and redundancies in the existing regulatory framework, as well as enhancing the quality of the financial data infrastructure through the promotion of a global Legal Entity Identifier (LEI) for financial institutions. There is no net taxpayer cost for these activities. As specified in the Act, the Budget reflects funding for the FSOC and OFR through transfers from the Federal Reserve for 2011 and 2012; thereafter, both entities will be fee-funded.

*Enhanced Consumer Protection:* The Wall Street Reform Act created a single independent regulator – the Consumer Financial Protection Bureau (CFPB) – whose sole mission is to look out for consumers in the increasingly complex financial marketplace. The CFPB consolidates the regulation and enforcement of existing consumer financial products, services and laws, and issues and enforces new regulations on nonbank financial institutions (e.g., payday lenders and credit providers). On July 21, 2011, the Treasury Department transferred power to the CFPB, one year after the agency was created by the Wall Street Reform Act. On January 4, 2012, Richard Cordray was appointed Director of the Bureau, and with his appointment, the CFPB is now able to implement the full range of its authorities. The CFPB is authorized to enforce existing consumer financial protection regulations affecting banks and affiliates (those with over \$10 billion in assets), as transferred to the CFPB by the seven regulatory agencies whose regulatory authority was consolidated in the Bureau under the Act. Notable existing regulations include the Fair Credit Reporting Act, Truth in Lending Act, and the Real Estate Settlement Procedures Act. The CFPB is also authorized to issue and enforce new rulemakings pertaining to prohibiting unfair, deceptive, or abusive practices and ensuring that the features of a consumer financial product or service are fairly, accurately, and effectively disclosed. In addition, the CFPB is charged with supervising nonbank financial firms in specific markets regardless of size, such as mortgage lenders, consumer reporting agencies, debt collectors, private education lenders, and payday lenders. In July, the CFPB debuted its toll-free telephone number for consumers to file and track complaints, along with a Web-based system for consumers to file credit card complaints. The CFPB has also proposed new, simplified mortgage disclosure forms to aid consumers in comparing mortgage products, and unveiled its Know Before You Owe prototype credit card disclosure form. On January 5, 2012, the CFPB

launched the Nation's first nonbank supervision program. The Bureau's approach to nonbank examination will be the same as its approach for banks. In October 2011 and January 2012, respectively, the Bureau released a general CFPB Examination Manual to guide examination processes for banks and nonbanks, as well as the Mortgage Origination Examination Manual, which specifically outlines procedures for supervising mortgage originators in both the banking and non-banking sectors. The CFPB is funded through transfers from the Federal Reserve and has authority, in the event of a funding shortfall, to request that Congress appropriate additional discretionary funds from 2010 to 2014. No such request is expected over the Budget horizon. The Budget reflects funding for the CFPB through these authorized transfers from the Federal Reserve, estimated at \$448 million in 2013.

*Deposit and Share Insurance and their Coverage:* The Wall Street Reform Act permanently increased the standard maximum deposit and share insurance amounts from \$100,000 to \$250,000, which applies to both the FDIC and the National Credit Union Administration, and requires the FDIC to base deposit insurance premiums on an insured depository institution's total liabilities instead of total insured deposits. To improve the security of the FDIC fund backing this insurance, the Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund (DIF) to at least 1.35 percent of total insured deposits by September 30, 2020, resulting in an increase in assessments on deposit institutions. These changes are reflected in the Budget and their effects are discussed in greater detail in the Credit and Insurance chapter in this volume.

*Increased Transparency in Financial Markets:* As the regulators of U.S. financial markets, the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) are key components of the Administration's efforts to reform dangerous Wall Street practices that threaten economic stability. Both agencies have worked tirelessly over the past three years to address many of the root causes of the crisis, to adapt their organizations to more effectively monitor regulated industries and activities, and to implement enforcement strategies designed to both punish noncompliant actors and deter noncompliance system-wide. In 2011, the SEC brought new sophistication to core agency functions, began implementing complex and comprehensive Wall Street Reform Act mandates, advanced an investor-focused agenda, and improved the productivity of its 3,800 member staff.

Over the past year, new specialized SEC Enforcement Division units continued to build expertise in complex, high-priority areas. Complementing this new organization was the increasing use of sophisticated analytic tools and data-based templates that identify suspicious trading patterns and activities, allowing Enforcement to more quickly identify and pursue unlawful conduct in the marketing, sale, and trading of securities products. In 2011, the SEC filed 735 enforcement actions—more than it ever filed in a single year. As a result of this aggressive enforcement agenda, the SEC obtained more than \$2.8 billion in ill-gotten gains and penalties in 2011. As part of

its enforcement efforts, the SEC has continued to bring actions against those suspected of misconduct related to the financial crisis of 2008. To date, the SEC has filed 36 separate actions in financial crisis-related cases against 81 defendants—nearly half of whom were CEOs, CFOs, and senior corporate executives of public companies—resulting in approximately \$1.97 billion in ill-gotten gains, penalties, and monetary relief obtained on behalf of the American people.

The Wall Street Reform Act tasked the SEC with writing a large number of new rules. In addition to managing the complexity and interrelatedness of the mandated rules, the SEC has worked to provide certainty to financial markets and participants by finalizing rules as quickly as possible without compromising the agency's ability to review, evaluate, and make changes to reflect the large number of public comments received on its proposed rulemakings. By December 31, 2011, the SEC had proposed or adopted more than three-fourths of the rules required by the Act. Among its accomplishments in reform rulemaking, the SEC has: proposed rules that will improve the integrity of the process that yielded so many flawed ratings of subprime mortgage products, by increasing transparency of the rating process and of the agencies that produce ratings, and by protecting against conflicts of interest when entities or individuals provide ratings for their clients; made available to regulators and the investing public information about the identities, size, and disciplinary history of hedge fund and other private fund advisers, enabling more efficient investing and more effective oversight of these previously unregulated entities; and worked with the CFTC to develop the regulatory blueprint and requirements for a transparent, efficient, and competitive marketplace for over-the-counter swaps and derivatives.

The SEC has also initiated a review of its offering rules to evaluate their impact on small business capital formation and to consider appropriate changes to boost participation and reduce barriers to entry. As part of this effort, the SEC created an Advisory Committee on Small and Emerging Companies.

In addition to its longstanding responsibility to ensure fair, open, and efficient future markets, the Wall Street Reform Act authorized the CFTC regulate the swaps marketplace through oversight of derivatives dealers and open trading and clearing of standardized derivatives on regulated platforms. To adapt its mission to include these new responsibilities, the CFTC is drafting numerous rules required to implement the Act. Through September 30, 2011, CFTC issued 52 proposed rules and 15 final rules; received, reviewed and analyzed approximately 28,000 comments; and held 14 technical conferences. The CFTC anticipates completion of the vast majority of the rules required by the Wall Street Reform Act by March 2012, and essentially all rules by July 2012—within 24 months of enactment of the Act.

While devoting significant resources to timely and thorough implementation of new Wall Street Reform Act authorities, the CFTC has continued its market surveillance and enforcement activities. The Commission under-

took 99 enforcement actions in 2011, the highest in the agency's history and a 74 percent increase over the prior fiscal year. The Commission also opened more than 450 investigations. More than 70 indictments and convictions were obtained in criminal cases related to CFTC enforcement actions. The most notable fraud case was *CFTC vs. Walsh, et al.*, where the Court ordered an initial distribution and return of approximately \$792 million to commodity pool investors.

The CFTC has actively consulted with other Federal financial regulators, as well as international counterparts, to ensure harmonization of new proposed rules. Additionally, the CFTC has demonstrated a commitment to public transparency in its adoption of Wall Street Reform Act implementing regulations, requesting and incorporating input from the public during the earliest stages of rule development, publishing a wide variety of materials and disclosures on its website, and conducting all Commission reviews of proposed rules in open forums.

The CFTC's review of Designated Contract Markets has been extremely limited due to funding constraints over the last year, which presents an oversight risk of exchanges that are responsible for the vast majority of U.S. futures trading volume. Annual reviews of major exchanges are important to provide assurance to the public and other regulators of the exchanges' ongoing core principle compliance. The Commission did review Self-Regulatory Organizations (SROs) to assess compliance with the CEA and Commission requirements and deficiencies noted were communicated to the SRO in draft form.

The next two years will be critical for the SEC and the CFTC as the agencies continue to identify and pursue unlawful activities stemming from the 2008 financial crisis and to operationalize the mandates of the Wall Street Reform Act.

On top of its traditional market oversight and investor protection responsibilities, the SEC will fully implement the following new authorities in 2012 and 2013: oversight and examination of new security-based swap clearing agencies, dealers, and data repositories; oversight and examination of private fund advisers managing thousands of pooled investment vehicles that will be newly registered with the SEC; reviewing disclosures of asset-backed securities issuers; registration of municipal advisers; and enhanced supervision of credit rating agencies. In addition, the SEC will continue the work of strengthening its core programs and operations, including detecting and pursuing securities fraudsters, reviewing public company disclosures and financial statements, inspecting the activities of investment advisers, investment companies, broker-dealers, and other registered entities, and maintaining fair and efficient markets. Building on a 2009 reorganization and recommendations from consultants and auditors, the SEC will focus its efforts on increasing coverage of registered investment advisory firms by adding new positions to the examination program; enhancing disclosure reviews of large or financially significant companies; and leveraging technology to streamline operations and bolster program effectiveness. All of these responsibilities are essential to restoring investor confi-

dence and trust in financial institutions and markets in the wake of the 2008 financial crisis. In support of the SEC's mission, the President's Budget provides \$1,566 million in new resources, an increase of \$242 million over the agency's 2012 appropriation. The Budget also projects that the SEC will obligate \$50 million from its mandatory Reserve Fund for investments in information technology systems and other necessary improvements.

The President's Budget provides significant increases for the CFTC in 2013 in support of base regulatory work as well as Wall Street Reform Act implementation. For CFTC, \$308 million is provided, an increase of \$103 million or 50 percent over 2012. Additionally, the Administration urges the Congress to enact legislation authorizing the CFTC to collect user fees to fund its activities. Such legislation would bring the CFTC into line with all other Federal financial regulators, which are funded in whole or in part through user fees. Upon enactment of legislation permitting the CFTC to collect user fees, the Administration will transmit a budget amendment to reflect the funding of CFTC's 2013 appropriation through offsetting collections.

*Streamlined Insurance Sector Regulation.* The Federal Insurance Office (FIO), housed within the Treasury, was established by the Wall Street Reform Act to "monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to" systemic risk. The FIO was created, in part, to streamline what is currently a decentralized regulatory regime. On October 17, 2011, the FIO announced that it was seeking public comment for its first mandatory report under the Act on how to modernize and improve the country's insurance regulatory system. The FIO will also play a role in support of FSOC; it will advise the Secretary on international issues related to insurance investment risk and regulation, and it will assume responsibility for the Treasury's Terrorism Risk Insurance Program. In May 2011, Treasury announced the formation of a Federal Advisory Committee on Insurance to offer recommendations to the FIO on issues related to the FIO's responsibilities. The vision for the FIO is that it will also provide the Federal Government with the ability to immediately estimate exposures related to catastrophic events, such as the September 11th terrorist attacks or Hurricane Katrina. The FIO is funded with discretionary resources through the Treasury's Departmental Offices (DO) request, and the Budget includes funding for this office.

**International Financial Reform.** The financial crisis was an international event not limited to U.S. markets, corporations, and consumers. In addition to its demonstrated commitment to achieving meaningful financial reform at home, the Administration continues to ensure coordination of financial reform principles across the globe. At the G-20 Summit in Pittsburgh in September 2009, President Obama and other G-20 leaders established the G-20 as the premier forum for international economic cooperation. Over the course of Summits held in London (April 2009), Pittsburgh (September 2009), Toronto (June 2010), Seoul (November 2010), and Cannes (November 2011), the Administration and G-20 leaders have committed to an ambitious agenda for financial regulatory re-



form. Their reform commitments have extended the scope of regulation, will improve transparency and disclosure, and will strengthen banks through increased and higher quality capital and introduction of a leverage ratio that will limit the amount banks may lend relative to their capital reserves. Together, the U.S. and its global allies are building effective resolution regimes, including cross-border resolution frameworks, and are developing higher prudential standards for systemically important financial institutions to reflect the greater risk those institutions pose to financial system stability. Treasury Secretary Geithner and others in the Administration have ensured that these commitments are fully consistent with our domestic financial reform agenda.

The Administration continues to work cooperatively with its G-20 partners to close regulatory gaps. These efforts reflect the parties' recognition of the interconnectedness of financial markets and the need to preclude opportunities for regulatory arbitrage, in which firms seek jurisdictions and financial instruments that are less regulated and, in doing so, allow risk to build up covertly, posing a threat to financial stability. In developing regulatory reforms that strengthen the resilience of the financial system to withstand the level of stress seen in the crisis, the Administration and its G-20 partners have remained mindful of the need to undertake reform in ways consistent with cultivating vibrant, innovative, and healthy markets that can do what financial markets do best: allocate scarce resources efficiently.

### **Federal Reserve Programs**

Beginning in August 2007, the Federal Reserve responded to the crisis by implementing a number of programs designed to support the liquidity positions of financial institutions and foster improved conditions in financial markets. The Federal Reserve actions can be divided into three groups. The first set of tools involved the provision of short-term liquidity to banks and other financial institutions through the traditional discount window to stem the precipitous decline in interbank lending. The Term Auction Facility (TAF), which was created in December 2007, allowed depository institutions to access Federal Reserve funds through an auction process, wherein depository institutions bid for TAF funds at an interest rate that was determined by the auction. The final TAF auction was held in March 2010 and, in total, the Federal Reserve disbursed over \$3.8 trillion in TAF loans. All TAF loans were repaid in full, with interest. The Federal Reserve also initiated the Term Securities Lending Facility (TSLF) and the Primary Dealer Credit Facility (PDCF), both of which provided additional liquidity to the system and helped stabilize the broader financial markets. The PDCF and TSLF expired on February 1, 2010, consistent with the Federal Reserve's June 2009 announcement.

The second set of tools involved the provision of liquidity directly to borrowers and investors in key credit markets. The Commercial Paper Funding Facility (CPFF), Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), Money Market Investor

Funding Facility (MMIFF), and the Term Asset-Backed Securities Loan Facility (TALF) fall into this category. As a third set of instruments, the Federal Reserve expanded its traditional tool of open market operations to support the functioning of credit markets through the purchase of longer-term secondary market securities for the Federal Reserve's System Open Market Account portfolio. In light of improved functioning of financial markets, many of the new programs have expired or been closed including the MMIFF (October 30, 2009), AMLF (February 1, 2010), and CPFF (February 1, 2010).

To address the frozen consumer and commercial credit markets, the Federal Reserve announced on November 25, 2008, that in conjunction with the Treasury Department it would lend up to \$200 billion to holders of newly issued AAA-rated asset-backed securities through the TALF. The program was expanded as part of the Administration's Financial Stability Plan and launched in March 2009. The program supported the issuance of asset-backed securities collateralized by student loans, auto loans, credit card loans, Small Business Administration guaranteed loans, commercial mortgage loans, and certain other loans. As part of the program, Treasury provided through TARP authorities protection to the Federal Reserve by originally covering the first \$20 billion in losses on all TALF loans. However, in July 2010, Treasury, in consultation with the Federal Reserve, reduced its loss-coverage to \$4.3 billion, which represented approximately 10 percent of the total \$43 billion outstanding in the facility when the program was closed to new lending on June 30, 2010.

To support mortgage lending and housing markets, the Federal Reserve began purchasing up to \$175 billion of Government-Sponsored Enterprise (GSE) debt and up to \$1.25 trillion of GSE mortgage-backed securities (MBS) beginning in December 2008. The Federal Reserve completed its purchase of \$1.25 trillion in GSE MBS in March 2010, and purchased \$172.1 billion of GSE debt as of December 2011. Purchasing GSE debt and MBS has provided liquidity to the mortgage market, which facilitated the issuance of new mortgage loans to homebuyers at affordable interest rates. The Federal Reserve also purchased \$300 billion in longer-term Treasury securities in 2009 to improve interest rate conditions in mortgage and other private credit markets.

To support a stronger paced economic recovery, in November 2010 the Federal Reserve announced plans to purchase up to \$600 billion of additional long-term Treasury securities as part of its "quantitative easing" program. The purchases were extended over an eight-month period; however, the Federal Open Market Committee stipulated that it would continually monitor economic conditions and alter the timing and amount of purchases of Treasury securities, as necessary, to maximize employment and maintain price stability, consistent with its statutory mandate.

Earnings resulting from the expansion of the Federal Reserve's balance sheet through the purchase of GSE debt, GSE MBS, and long-term Treasury securities have increased the profits the Federal Reserve remits to the Treasury, reducing the budget deficit. In 2011, Treasury

received \$82.6 billion from the Federal Reserve, which represents a 9 percent increase over 2010 deposits. The Budget projects Treasury will receive \$81.3 billion and \$80.5 billion from the Federal Reserve in 2012 and 2013, respectively.

### **Federal Deposit Insurance Corporation (FDIC) Programs**

Using its existing authority, the FDIC created the Temporary Liquidity Guarantee Program (TLGP) in October 2008, to help restore confidence in the banking sector and prevent large scale deposit flight. There are two components to the TLGP: the Debt Guarantee Program and the Transaction Account Guarantee (TAG). For the first time ever, the Debt Guarantee Program (DGP) allowed participating institutions (banks and their holding companies and affiliates) to issue FDIC-guaranteed senior secured debt. Therefore, if a participating institution defaulted on its debt, the FDIC would make required principal and interest payments to unsecured senior debt holders. The FDIC charged additional fees and surcharges for any participating institutions that voluntarily opted into this program. Originally, the guarantee was limited to unsecured debt issued between October 14, 2008, and June 30, 2009, and the FDIC debt guarantee coverage extended through June 30, 2012. On March 17, 2009, the FDIC extended coverage to debt issued through October 31, 2009, and extended the guarantee through December 31, 2012. The FDIC also levied a surcharge on debt issued between April 1, 2009, and October 31, 2009, which was transferred to the Deposit Insurance Fund. On October 20, 2009, the FDIC adopted a final rule reaffirming that the FDIC will not guarantee any debt issued after October 31, 2009. The rule also established a limited, six-month emergency guarantee facility upon expiration of the program; however, this facility was never utilized. As of September 30, 2011, there was \$224.9 billion of debt outstanding in the senior unsecured debt guarantee program.

TAG, the second component of the TLGP, extended an unlimited FDIC guarantee to participating insured depository institutions on non-interest bearing transaction account deposits, which included low-interest negotiable order of withdrawal (NOW) accounts and Interest on Lawyers Trust Accounts (IOLTAs). The FDIC charged additional premiums for any banks that voluntarily opted into this program. This guarantee was designed to protect small business payrolls held at small and medium sized banks.

The Wall Street Reform Act modified authorities for these programs and authorized the FDIC to provide two years of unlimited insurance coverage, through the Deposit Insurance Fund, for non-interest bearing transaction account deposits starting on December 31, 2010 (excluding NOW accounts and IOLTAs). However, the Permanent Federal Deposit Insurance Coverage for Interest on Lawyers Trust Accounts Act (P.L. 111-343) enacted on December 29, 2010, extended the two years of unlimited coverage to IOLTAs as well, though not the NOW accounts. The coverage extended through the Act is provided to all insured institutions and there are no

separate fees associated with this coverage. Due to the passage of the Act, the FDIC Board adopted a final rule in October 2010, stating that the TAG would not be extended beyond its December 31, 2010, expiration date. The Budget reflects TAG account transactions for the first quarter of 2011, after which losses on non-interest bearing transaction accounts are reflected in the FDIC's Deposit Insurance Fund.

The FDIC has further collaborated with the Treasury Department and the Federal Reserve to provide exceptional assistance to institutions such as Citigroup. Alongside the Treasury and the Federal Reserve, the FDIC guaranteed up to \$10 billion of a \$301 billion portfolio of residential and commercial mortgage-backed securities at Citigroup. The guarantee was terminated in December 2009 as part of a larger Citigroup initiative to repay Federal support.

For a more detailed analysis of active FDIC programs, see the section titled, "Deposit Insurance" in the Credit and Insurance chapter in this volume.

### **National Credit Union Administration (NCUA) Programs**

The NCUA has continued to take aggressive actions in response to dislocations in financial markets in order to maintain member and investor confidence, limit losses, and promote recovery in the credit union system. These actions have included raising the deposit insurance coverage to \$250,000 in 2009, providing liquidity loans to member credit unions totaling \$24 billion, and stabilizing five credit unions through conservatorship. NCUA has also executed multiple programs amidst the economic crises to ensure liquidity and ultimately the continued safety and soundness of the credit union system, including the Corporate System Resolution Program under the Temporary Corporate Credit Union Stabilization Fund.

For a more detailed analysis of active NCUA programs, see the section titled, "Deposit Insurance" in the Credit and Insurance chapter in this volume.

### **Housing Market Programs under the Housing and Economic Recovery Act**

To avoid a possible collapse of the housing finance market and further risks to the broader financial market, the Federal Housing Finance Agency (FHFA) placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) into conservatorship on September 6, 2008. On the following day, the U.S. Treasury launched three new programs to provide temporary financial support to these housing Government-Sponsored Entities (GSEs) and to stabilize the housing market under the broad authority provided in the Housing and Economic Recovery Act (HERA) of 2008 (P.L. 110-289). First, the Treasury Department provided capital to the GSEs through Senior Preferred Stock Purchase Agreements (PSPAs) to ensure that the GSEs maintain a positive net position (i.e., assets are greater than or equal to liabilities). On December 24, 2009, Treasury announced that the funding commitments in the purchase agreements would be modified to

the greater of \$200 billion or \$200 billion plus cumulative net worth deficits experienced during calendar years 2010 through 2012, less any surplus remaining as of December 31, 2012. Second, the Treasury established a line of credit for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks to ensure they have adequate funding on a short-term, as-needed basis. This line of credit was never used. The Treasury also initiated purchases of GSE guaranteed mortgage-backed securities (MBS) in the open market (separate from the Federal Reserve's MBS purchase program discussed above), with the goal of increasing liquidity in the secondary mortgage market. In December 2009, the Treasury initiated two additional purchase programs under HERA authority to support housing assistance provided through new and existing State and local Housing Financing Agencies (HFAs) revenue bonds. Treasury's authority to enter new obligations under the GSE PSPA agreement, MBS purchase, and HFA support programs expired on December 31, 2009. However, Treasury's existing commitments continue to support any needed capital infusions through PSPAs, and new and existing HFA housing bond issuances, and Treasury will continue to collect proceeds from the sale or repayment of the securities that it owns.

The Budget assumes that Treasury will make cumulative investments in Fannie Mae and Freddie Mac of \$221 billion from 2009 through 2013 and receive dividends of \$73 billion over the same period. Starting in 2013, the Budget forecasts that Fannie Mae and Freddie Mac will have sufficient earnings to pay part but not all of the scheduled dividend payments. The Budget assumes additional net dividend receipts of \$121 billion from 2014-2022. The cumulative cost of the PSPA agreements from the first PSPA purchase through 2022 is estimated to be \$28 billion. The Budget also includes new fees resulting from a provision in the Temporary Payroll Tax Cut Continuation Act of 2011 requiring the GSEs to increase their fees by an average of at least 0.10 percentage points above the average guarantee fee imposed in 2011. Revenues generated by these fee increases will be remitted directly to the Treasury for deficit reduction, and the Budget estimates resulting deficit reductions of \$37 billion from 2012 through 2022.

In addition, significant assistance has been provided to the mortgage market through the Federal Housing Administration (as described in the Credit and Insurance chapter), through Federal Reserve Bank purchases of GSE MBS (as described above), and through the Department of the Treasury (as described below).

A more detailed analysis of these housing assistance programs and the future of the GSEs is provided in the "Credit and Insurance" chapter of this volume.

### Treasury Programs

**Small Business Lending Programs.** To increase the availability and affordability of credit to help small businesses drive economic recovery and create jobs, the Small Business Jobs Act of 2010 (P.L. 111-240) created two new programs proposed by the Administration that are being administered by the Department of the Treasury:

the State Small Business Credit Initiative (SSBCI), which provides capital through grants to State programs that support lending to small businesses, and the Small Business Lending Fund (SBLF), which was authorized to provide up to \$30 billion in capital to qualified community banks and other targeted lenders with assets of less than \$10 billion to encourage their lending to small businesses.

The SSBCI authorizes Treasury to disburse \$1.5 billion to new and existing State programs such as Capital Access Programs (CAPs) and Other Credit Support Programs (OCSPs) that will leverage private financing to spur up to \$15 billion in new lending to small businesses and small manufacturers. For every dollar of Federal funding, SSBCI requires at least \$10 in private lending. A total of 53 States and territories (out of a possible 56) applied to take part in the SSBCI. A total of 5 municipalities in the three States that did not apply (Wyoming, North Dakota, and Alaska) submitted their applications directly to SSBCI by the statutory deadline of September 27, 2011 for a total of 58 applications received by the program. As of January 1, 2012, SSBCI has approved funding for 47 States, 3 territories, and the District of Columbia for a total of \$1.4 billion, and approximately \$460 million has been disbursed. (Note: SSBCI funds States in three equal tranches. States, territories, and municipalities must prove that they have disbursed at least 80 percent of prior funds before receiving the remaining tranches.) Treasury expects to disburse nearly all of the \$1.5 billion funds. While it is still too early to measure the success of the SSBCI program, initial reports are promising, with 12 states reporting using SSBCI funds to support loans and investments. SSBCI will start receiving data-driven reports from recipient States, territories, and municipalities this year, which it will use to assess performance and provide tailored technical assistance, including assessment and communication across states of "best practices" to maximize the effectiveness of funding.

The SBLF authorized Treasury to lend up to \$30 billion of capital to eligible financial institutions (those having less than \$10 billion in assets) and participating institutions are required to pay dividends based on the volume growth of their small business lending portfolio. Providing this low-cost capital to lenders will increase their loans to small businesses many times over. The application period closed in June 2011 and all awards were made by September 27, 2011, the statutory end of the funding phase of the program. Treasury received 933 applications totaling \$11.8 billion. Of these, 332 institutions were approved for a total of \$4.03 billion, with some institutions screened out due in part to stringent credit requirements aimed at protecting taxpayer dollars and avoiding lending to institutions that were likely to default on their SBLF obligations. Banks ineligible for the program included: (1) institutions listed on the regulator's problem bank list with expected CAMELS score greater than 4; and (2) TARP Capital Purchase Program (CPP) refinancings with more than one missed CPP dividend payment. SBLF is expected to create a positive return for taxpayers given the prudent lending standards established by the program. For more information on SSBCI and SBLF,



please see the “Credit and Insurance” chapter, in this volume.

**Troubled Asset Relief Program (TARP).** EESA authorized the Treasury to purchase or guarantee troubled assets and other financial instruments to restore liquidity and stability to the financial system of the United States while protecting taxpayers. Treasury has used its authority under EESA to provide capital to and restore confidence in U.S. financial institutions, to restart markets critical to financing American households and businesses, and to address housing market problems and the foreclosure crisis. Under EESA, the Secretary’s authority was originally limited to \$700 billion in obligations at any one time, as measured by the total purchase price paid for assets and guaranteed amounts outstanding. The Helping Families Save Their Homes Act of 2009 (P.L. 111-22) reduced total TARP purchase authority by \$1.3 billion, and in July 2010, the Wall Street Reform Act further reduced total TARP purchase authority to a maximum of \$475 billion in cumulative obligations.

On December 9, 2009, and as authorized by EESA, the Secretary of the Treasury certified to Congress that an extension of TARP purchase authority until October 3, 2010, was necessary “to assist American families and stabilize financial markets because it will, among other things, enable us to continue to implement programs that address housing markets and needs of small businesses, and to maintain the capacity to respond to unforeseen threats.” On October 3, 2010, the Treasury’s authority to make new TARP commitments expired. The Treasury continues to manage existing investments and is authorized to expend previously committed TARP funds pursuant to obligations entered into prior to October 3, 2010.

In extending TARP authority through October 3, 2010, the Secretary outlined the Government’s four elements of its strategy to wind down TARP and related programs: First, the Treasury would wind down those programs that are no longer necessary, such as the Capital Purchase Program (CPP); funding for the CPP ended on December 31, 2009. Second, new planned programs in 2010 under the extension of the purchase authority would be limited to three areas: (1) continued foreclosure mitigation for responsible American homeowners and stabilization of the housing market; (2) initiatives to provide capital to small and community banks; and (3) potentially increased commitment to the Term Asset-Backed Securities Loan Facility (TALF) to improve securitization markets that facilitate consumer and small business loans, as well as commercial mortgage loans. Third, the Government would maintain the capacity to respond to unforeseen threats. The Government would not use remaining TARP funds unless necessary to respond to an immediate and substantial threat to the economy stemming from financial instability. Fourth, the Government would manage equity investments acquired through TARP while protecting taxpayer interests. It would continue to manage those investments in a commercial manner and seek to dispose of them as soon as practicable.

Section 202 of EESA requires the Office of Management and Budget (OMB) to semi-annually report the estimated

cost of TARP assets purchased and guarantees issued pursuant to EESA. The most recent report was issued November 8, 2011.<sup>2</sup> Consistent with the requirement to analyze transactions occurring no less than thirty days before publication, the 2013 Budget data presented in this report reflect revised subsidy costs for the TARP programs using actual performance and updated market information through November 30, 2011. For information on subsequent TARP program developments, please consult the Treasury Department’s Troubled Asset Relief Program Monthly 105(a) Reports.

### Market Impact

Although challenges in the economy remain, TARP’s support to the banking sector through the Capital Purchase Program (CPP), Targeted Investment Program (TIP), Asset Guarantee Program, and the Community Development Capital Initiative (CDCI) has helped strengthen the financial position of the Nation’s banking institutions. Net income of insured financial institutions for the quarter ending September 30, 2011, was \$35.3 billion, which marked nine consecutive quarters of year-over-year net income gains.<sup>3</sup> This growth in earnings has largely been fueled by financial institutions reducing the loan loss provisions on their balance sheets based on improved forecasts of their asset quality. Total provisions for loan losses for all insured depository institutions was reduced by nearly half to \$18.6 billion as of September 30, 2011, on a year-over-year basis. This reduction in loan loss reserves points to improving credit and market conditions.

The gradual healing of the banking sector, coupled with the TARP programs aimed at reviving the credit markets, have facilitated the improved flow of credit in both the commercial and consumer markets. Together, the Term Asset Backed Securities Loan Facility (TALF) and the Public Private Investment Program (PPIP) helped to improve the overall credit climate for businesses, as evidenced by the declining cost of long-term investment grade borrowing, which has fallen from a peak of roughly 570 basis points over benchmark Treasury securities at the height of the crisis to just 206 basis points over Treasuries as of December 31, 2011.<sup>4</sup> However, additional progress is needed to increase businesses’ access to credit at reasonable rates, enabling the economy to achieve its full potential.

Emergency loans to General Motors and Chrysler via the TARP Automotive Industry Financing Program (AIFP) spurred the resurgence of the U.S. auto manufacturing industry. The Administration’s assistance to both GM and Chrysler was conditioned on the requirement that stakeholders make difficult, but necessary restructuring and reorganization decisions in order for these companies to

<sup>2</sup> See “OMB Report under the Economic Stabilization Act, Section 202,” November 8, 2011. <http://www.whitehouse.gov/sites/default/files/omb/reports/emergency-economic-stabilization-act-of-2008.pdf>

<sup>3</sup> Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, September 2011. <http://www2.fdic.gov/qbp/2011sep/qbp.pdf>

<sup>4</sup> Spreads for the cost of long-term investment grade borrowing are based upon 10-year Treasury yield and FINRA/Bloomberg Investment Grade U.S. Corporate Bond Index yield.

emerge from bankruptcy and achieve long-term viability. Although AIFP is still estimated to result in a net cost to taxpayers, the Government has been able to recover much more from auto companies than originally estimated, and far sooner, while reinvigorating one of America's critical industries. New Chrysler has posted seven consecutive quarters of operating profit and has announced more than \$4.5 billion in investments in plants and technology since emerging from bankruptcy in 2009.<sup>5</sup> The story has been similar for New GM — and the industry as a whole. For the first time since 2004, Ford, Chrysler, and GM all achieved positive quarterly net profits in the first quarter of 2011.<sup>6</sup> In addition, the Big Three automakers increased their market share in 2010 for the first time since 1995.<sup>7</sup> The auto industry is leading a resurgence in American manufacturing that translates to the creation of more American jobs, with nearly 160,000 jobs created in the American auto industry in 2010 and 2011.

Although the housing market is still recovering, the Administration's housing programs implemented through the TARP have helped stabilize the market and kept millions of borrowers in their homes. As of December 31, 2011, nearly 910,000 borrowers have received permanent modifications through the Home Affordable Modification Program (HAMP), which amounts to an estimated \$10 billion in realized aggregate savings for these

homeowners. In addition to helping these borrowers, the Administration's TARP housing programs have been a catalyst to private sector modifications, as they have paved the way for private lenders and investors to acknowledge that a borrower's debt-to-income ratio is a key determinant of mortgage affordability and therefore linked to credit performance. Since April 2009, HAMP, FHA, and the private sector HOPE Now alliance have initiated more than 5.5 million mortgage modifications, which is nearly double the number of foreclosure completions that were executed in the same period. The Administration has continued to respond to the evolving housing crisis by implementing programs that provide mortgage relief to unemployed homeowners and those with negative home equity. Furthermore, through the HFA Hardest Hit Fund, the Administration has allocated \$7.6 billion to eligible States to implement innovative housing programs to bring stability to local housing markets and meet the unique needs of their communities.

### Deficit Impact

Nearly three years after the first TARP dollars were disbursed, the TARP has not only helped to stabilize financial markets and set the foundation for economic recovery, but it has done so at a much lower cost than originally estimated. As of December 31, 2011, total repayments and income on TARP investments were approximately \$318 billion, which is 77 percent of the \$414 billion in total disbursements to date. The projected total lifetime deficit impact of TARP programmatic costs, reflecting recent activity and revised subsidy estimates based on market data as of November 30, 2011, is now estimated at \$67.8 billion (see Table 4-1).

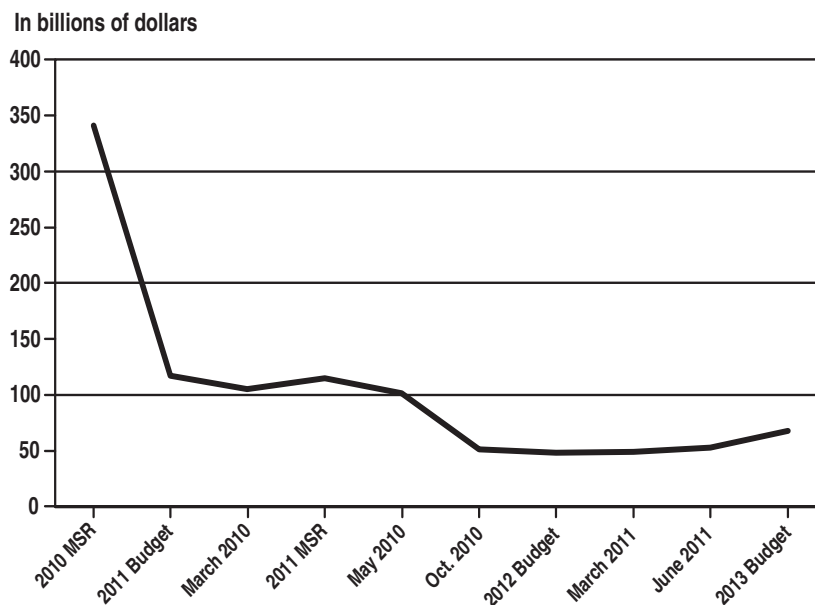
Compared to the 2012 MSR estimate of \$46.8 billion, the estimated deficit impact of TARP increased by \$21

<sup>5</sup> Chrysler Corporation, *Third Quarter 2011 Financial Results Webcast*, October, 28, 2011 [http://www.chryslergrouppllc.com/en-us/investor/presentations/QAWebcasts/ChryslerDocuments/Q3\\_2011\\_Presentation.pdf](http://www.chryslergrouppllc.com/en-us/investor/presentations/QAWebcasts/ChryslerDocuments/Q3_2011_Presentation.pdf)

<sup>6</sup> Department of the Treasury, Secretary Timothy F. Geithner's Written Testimony before the Congressional Oversight Panel, <http://cybercemetery.unt.edu/archive/cop/201110402013407/http://cop.senate.gov/documents/testimony-121610-geithner.pdf>

<sup>7</sup> White House Report, *The Resurgence of the American Automotive Industry*, June 2011.

**Chart 4-1. Estimate of TARP's Deficit Impact**



Source: OMB and Treasury.

billion. This increase was largely attributable to the lower valuation of the AIG and GM common stock held by Treasury. AIG's share price fell by \$6.01 (or 21 percent), while GM's share price fell by \$9.07 (or 30 percent), relative to the share prices used to formulate the June 30th Valuation.<sup>8</sup> AIG and GM losses were partly offset by a higher valuation for the PPIP, as the value of commercial and mortgage-back securities held in the portfolios of Public-Private Investment Funds improved.

There has been a notable reduction in TARP's projected deficit impact from the \$341 billion estimate published in the 2010 MSR (see graph below). The Budget reflects a total TARP deficit impact of \$67.8 billion, a \$273 billion reduction from the 2010 MSR and a \$288 billion reduction from the Congressional Budget Office's March 2009 estimate of \$356 billion.

A description of the TARP programs, followed by a detailed analysis of the programmatic changes to the TARP and the cost estimates since the publication of the 2012 MSR, is provided below.

### **Description of Assets Purchased Through the TARP, by Program**

**Capital Purchase Program (CPP).** Pursuant to EESA, the Treasury created the CPP in October 2008 to restore confidence throughout the financial system by ensuring that the Nation's banking institutions have a sufficient capital cushion against potential future losses and to support lending to creditworthy borrowers. All eligible CPP recipients completed funding by December 31, 2009, and Treasury purchased \$204.9 billion in preferred stock in 707 financial institutions under the CPP program. As of December 31, 2011, Treasury had received approximately \$185 billion in principal repayments (i.e., redemptions of common and preferred stock, CDCI conversions, and refinancings to SBLF) and nearly \$26 billion in revenues from dividends, interest, warrants, gains/other interest and fees. Total redemptions and income now exceed Treasury's initial investment.

**Community Development Capital Initiative (CDCI).** The CDCI program invests lower-cost capital in Community Development Financial Institutions (CDFIs), which operate in markets underserved by traditional financial institutions. In February 2010, Treasury released program terms for the CDCI program, under which participating institutions received capital investments of up to 5 percent of risk-weighted assets and pay dividends to Treasury of as low as 2 percent per annum. The dividend rate increases to 9 percent after eight years. CDFI credit unions were able to apply to TARP for subordinated debt at rates equivalent to those offered to CDFI banks and thrifts. These institutions could apply for capital investments of up to 3.5 percent of total assets – an amount approximately equivalent to the 5 percent of risk-weighted assets available under the CDCI program to banks and thrifts. TARP capital of \$570 million has been committed to this program.

**Capital Assistance Program and Other Programs (CAP).** The Treasury launched the CAP in March 2009 as the next phase of its effort to ensure that institutions have enough capital to lend, even under more distressed economic scenarios. The CAP was announced in conjunction with the commencement of a supervisory capital assessment process, commonly referred to as the "stress tests". The CAP was available to institutions that participated in the "stress tests" as well as others. Of the ten bank holding companies that were identified by the test as needing to raise more capital, nine have met or exceeded the capital raising requirements through private efforts. The Treasury provided an additional \$3.8 billion in capital to GMAC, now Ally Financial, under the Auto Industry Financing Program (described above) to assist its fundraising efforts to meet the requirements of the stress test results. Due to the success of the stress tests, efforts to raise private capital, and CPP, as well as other Government efforts, the Treasury did not receive any applications for the CAP, which terminated on November 9, 2009.

**American International Group (AIG) Investments.** The Federal Reserve Bank of New York (FRBNY) and the Treasury provided financial support to AIG in order to mitigate broader systemic risks that would have resulted from the disorderly failure of the company. To prevent the company from entering bankruptcy and to resolve the liquidity issues it faced, the FRBNY provided an \$85 billion line of credit to AIG in September 2008 and received preferred shares that entitled it to 79.8 percent of the voting rights of AIG's common stock. After TARP was enacted, the Treasury and FRBNY continued to work to facilitate AIG's execution of its plan to sell certain of its businesses in an orderly manner, promote market stability, and protect the interests of the U.S. Government and taxpayers. As of December 31, 2008, when purchases ended, the Treasury had purchased \$40 billion in preferred shares from AIG through TARP, which have subsequently been converted to common stock. In April 2009, Treasury also extended a \$29.8 billion line of credit, of which AIG drew down \$27.8 billion as of January 2011, in exchange for additional preferred stock. The remaining \$2 billion obligation was subsequently canceled.

AIG executed a recapitalization plan with FRBNY, Treasury, and the AIG Credit Facility Trust in mid-January 2011 that has allowed for the acceleration of the Government's exit from AIG. As a result of the restructuring and AIG's ensuing public offering, the Treasury now has a 77 percent ownership (or 1.45 billion shares) stake in AIG, which represents a 15 percentage point reduction from Treasury's 92 percent ownership stake in January 2011. Moreover, AIG has fully repaid the FRBNY. A summary of the deal terms and recent transactions is provided below:

- AIG fully repaid the remaining \$20 billion line of credit held by the FRBNY (including accrued interest and fees) using \$27.2 billion raised from the initial public offering of the AIA Group Limited (AIA) and the sale of its American Life Insurance Company (ALICO) to MetLife. The line of credit was subsequently canceled.

<sup>8</sup> The 2013 Budget valuation used the November 30, 2011 share price of \$23.31 for Treasury's AIG common stock and \$21.29 for Treasury's GM common stock.



- AIG drew \$20.3 billion from the remaining \$22.3 billion TARP line of credit to buy-out the FRBNY's preferred interests in special purposes vehicles (SPV) holdings within AIA and ALICO. In exchange, Treasury received the preferred interests in the two SPV's, which are supported by interests in a number of AIG subsidiaries that were valued at \$24.5 billion as of September 30, 2011. In February 2011, AIG sold subsidiaries AIG Star Life and AIG Edison Life Insurance Companies and provided \$2.1 billion in proceeds to Treasury. On March 2, 2011, AIG sold common stock and equity shares in MetLife for \$9.6 billion in gross proceeds. AIG used \$6 billion of these proceeds to repay U.S. taxpayers, which represented Treasury's share of preferred interests in the ALICO SPV that was transferred from the FRBNY. As of November 30, 2011, Treasury held approximately \$8.2 billion of preferred equity interest of designated AIG assets held in the AIA SPV. The 2013 Budget cost estimates assume full repayment of the Treasury's preferred equity interest, as the estimated value of the underlying assets in the AIA SPV far exceed Treasury's \$8.2 billion holdings, based on November 30, 2011, market pricing.
- The January 2011 recapitalization agreement allowed AIG to draw down \$2.0 billion in previous obligations from the TARP credit line for general corporate purposes as necessary. However, these funds were not drawn down and in May 2011, AIG canceled the outstanding \$2 billion credit line with Treasury in conjunction with AIG's sale of 100 million primary shares of common stock.
- When the recapitalization closed in January 2011, Treasury exchanged its Series E and F preferred interest holdings acquired through the TARP for 1.09 billion shares in AIG common stock, which facilitates Treasury's ability to exit the program as common stock is more liquid than preferred interest holdings.
- As part of the initial aid package extended to AIG in 2008, the FRBNY received AIG Series C convertible preferred shares worth 79.8 percent of AIG common stock in January 2009, and transferred ownership to an independent Trust that names the U.S. Treasury as beneficiary. As part of the January recapitalization plan, the Series C preferred shares held by the Trust were exchanged for 562.9 million shares of AIG common stock. Immediately after the exchange, the Trust distributed all of its AIG common stock to the Treasury, and was subsequently dissolved. (Note: the transfer of AIG common stock from the Trust to the Treasury was not a TARP purchase, and thus the value of this stock received from the Federal Reserve is not included in the TARP cost estimates.)
- On May 24, 2011, Treasury sold 200 million shares of its common stock through a public offering at \$29.00 per share, netting \$5.8 billion in proceeds for taxpayers. Approximately two-thirds of the proceeds, or \$3.8 billion, represented sales of stock acquired

from TARP assistance to AIG and is included in TARP AIG net cost estimates, while the remaining one-third, or \$2 billion, represented the sale of AIG common stock that was transferred to the Treasury from the Federal Reserve.

- On August 18, 2011, Treasury received an additional payment of \$2.2 billion funded through proceeds from the sale of AIG's Nan Shan life insurance subsidiary. This was followed by an additional repayment of \$972 million on November 1, 2011, that was funded primarily through the scheduled release of escrowed proceeds from AIG's sale of ALICO, a subsidiary, to MetLife, Inc. Proceeds from both of these repayments were used to pay back the U.S. taxpayers' investments in AIG. After this repayment, Treasury's remaining outstanding investment in AIG, including common shares and preferred interests, was \$50 billion.

**Targeted Investment Program (TIP).** The goal of the TIP was to stabilize the financial system by making investments in institutions that are critical to the functioning of the financial system. Investments made through the TIP sought to avoid significant market disruptions resulting from the deterioration of one financial institution that could threaten other financial institutions and impair broader financial markets, and thereby pose a threat to the overall economy. Under the TIP, the Treasury purchased \$20 billion in preferred stock from Citigroup and \$20 billion in preferred stock from Bank of America. The Treasury also received stock warrants from each company. Both Citigroup and Bank of America repaid their TIP investments in full in December 2009, along with dividend payments of approximately \$3.0 billion. In March 2010, Treasury sold all of its Bank of America warrants for \$1.2 billion, and in January 2011, the Treasury sold Citigroup warrants acquired through the TIP for \$190.4 million. The TIP is closed and has no remaining assets; taxpayers received a positive return of 8.5 percent on these investments.

**Asset Guarantee Program (AGP).** The TARP created the AGP to provide Government assurances for assets held by financial institutions that were critical to the functioning of the nation's financial system. In January 2009, the Treasury, the Federal Reserve, and the FDIC negotiated a potential loss-sharing arrangement under the AGP on up to \$118 billion of financial instruments owned by Bank of America. In May 2009, Bank of America announced its intention to terminate negotiations with respect to the loss-sharing arrangement. In September 2009, the Treasury, the Federal Reserve, the FDIC, and Bank of America entered into a termination agreement pursuant to which Bank of America agreed to pay a termination fee of \$425 million to the Government parties. Of this amount, \$276 million was paid to the TARP in 2009 for the value Bank of America received from the announcement of the government's willingness to guarantee and share losses on the pool of assets.

The Treasury, the Federal Reserve and the FDIC entered into a final agreement for a loss-sharing arrange-

ment with Citigroup on January 15, 2009. Under the agreement, the Treasury guaranteed up to \$5 billion of potential losses incurred on a \$301 billion portfolio of financial assets held by Citigroup. The agreement was terminated, effective December 23, 2009. The U.S. Government parties did not pay any losses under the agreement, and retained \$5.2 billion of the \$7 billion in trust preferred securities that were part of the initial agreement with Citigroup.<sup>9</sup> TARP retained \$2.2 billion of the trust preferred securities, as well as warrants for common stock shares that were issued by Citigroup as consideration for the guarantee. Treasury sold the trust preferred securities on September 30, 2010, and the warrants on January 25, 2011, liquidating its direct holdings in Citigroup. However, Treasury is entitled to receive up to \$800 million in additional Citigroup trust preferred securities held by the FDIC (net of any losses suffered by the FDIC) under Citigroup's use of the Temporary Liquidity Guarantee Program. The AGP program is now closed and will generate a positive return to the taxpayers from the preferred securities and other considerations.

#### **Automotive Industry Financing Program (AIFP).**

In December 2008, the Treasury established the AIFP to prevent a disruption of the domestic automotive industry, in order to mitigate a systemic threat to the Nation's economy and a potential loss of thousands of jobs. Through TARP, the Treasury originally committed \$84.8 billion through loans and equity investments to participating domestic automotive manufacturers, auto finance companies, and auto parts manufacturers and suppliers. As of December 31, 2011, Treasury had recouped nearly 50 percent of its investments in GM and had fully exited its Chrysler Group LLC investments. Below is a summary of the securities TARP received in exchange for the assistance provided to automotive manufacturers and recent transactions:

- Treasury received 60.8 percent of the common equity and \$2.1 billion in preferred stock in "New GM" when the sale of assets from the old GM to the new GM took place on July 10, 2009. In April 2010, GM fully repaid its \$7 billion loan, ahead of its publicly stated goal to repay the entire loan by June 2010. As part of New GM's initial public offering (IPO) in November 2010, Treasury sold nearly 359 million shares of New GM common stock at \$33.00 per share, and subsequently sold an additional 53.7 million shares in December 2010 at the same price. In total, TARP raised \$13.5 billion in net proceeds from the New GM IPO and reduced its ownership stake by nearly half, to approximately 32 percent. New GM also repurchased \$2.1 billion in preferred stock from TARP in December 2010. As of December 31, 2011, TARP had recouped \$24.1 billion of the \$51.03 billion in aid extended to GM.
- Treasury also received a \$7.1 billion debt security and a 9.9 percent share of the equity in the newly

formed, post-bankruptcy Chrysler Group LLC (New Chrysler). As part of the bankruptcy proceedings, New Chrysler also assumed \$500 million of debt from TARP's original \$4 billion loan to Chrysler Holding (Old Chrysler). Therefore, TARP held a \$3.5 billion loan with Old Chrysler in addition to investments in New Chrysler. In April 2010, TARP received a \$1.9 billion repayment of its investments in Old Chrysler. This repayment, while less than the amount Treasury invested, was significantly more than the Administration had previously estimated to recover. As part of the repayment agreement, Treasury agreed to write off the \$1.6 billion balance remaining under the \$3.5 billion TARP loan to Old Chrysler. On May 24, 2011, six years ahead of schedule, Chrysler Group LLC repaid the remaining \$5.1 billion in TARP loans and terminated the remaining \$2.1 billion TARP loan commitment. Finally, on June 2, 2011, Treasury reached an agreement to sell to Fiat Treasury's 6 percent fully diluted equity interest in New Chrysler and Treasury's interest in an agreement with the UAW retiree trust for \$560 million. The closing of this transaction in July 2011 marked Treasury's full exit from its TARP investments in Chrysler. In total, Chrysler repaid \$11.1 billion<sup>10</sup> of the \$12.4 billion in aid provided by the U.S. Government, which far exceeded expectations when the program was first unveiled in December 2008.

- The Treasury has also purchased investments totaling \$16.3 billion in Ally Financial (formerly GMAC). On December 30, 2010, Treasury converted \$5.5 billion of its \$11.4 convertible preferred stock in Ally Financial into common stock. On March 2, 2011, Treasury sold all of its trust preferred securities for approximately \$2.7 billion. Ally Financial filed a registration statement with the Securities and Exchange Commission for a proposed initial public offering on March 31, 2011, proceeds of which are expected to facilitate Ally paying back TARP and ending governmental ownership shares. As of December 31, 2011, Treasury had recouped \$5.3 billion of its \$16.3 billion in Ally-related investments, including \$2.7 billion in dividends and interest.

Both the Auto Supplier Support Program (ASSP) and the Auto Warranty Commitment Program (AWCP) have closed and, in aggregate, these investments did not result in losses. The Government originally committed \$5 billion in loans to ASSP, ensuring the auto suppliers received compensation for products and services purchased by automakers. Through the AWCP, the Government extended support to protect consumer warranties on purchased GM and Chrysler vehicles while the companies worked through their restructuring plans. Treasury no longer holds warranties under the AWCP.

**TARP Housing Programs.** To mitigate foreclosures and preserve homeownership, in February 2009

<sup>9</sup> Trust Preferred Securities (TruPS) are financial instruments that have the following features: they are taxed like debt; counted as equity by regulators; are generally longer term; have early redemption features; make quarterly fixed interest payments; and mature at face value.

<sup>10</sup> Chrysler repayments of \$11.1 billion include \$560 million in proceeds from the sale of Treasury's 6 percent fully diluted equity interest in Chrysler to Fiat and Treasury's interest in an agreement with the UAW retiree trust that were executed on July 21, 2011.



the Administration announced a comprehensive housing program utilizing up to \$50 billion in funding through the TARP. The Government-Sponsored Entities (GSEs) Fannie Mae and Freddie Mac participated in the Administration's program both as the Treasury Department's financial agents for Treasury's contracts with servicers, and by implementing similar policies for their own mortgage portfolios.<sup>11</sup> These housing programs are focused on creating sustainably affordable mortgages for responsible homeowners who are making a good faith effort to make their mortgage payments, while mitigating the spillover effects of foreclosures on neighborhoods, communities, the financial system and the economy. Following the enactment of the Wall Street Reform Act, Treasury reduced its commitments to the TARP Housing programs to \$45.6 billion. These programs fall into three initiatives:

1. Making Home Affordable (MHA);
2. Housing Finance Agency (HFA) Hardest-Hit Fund (HHF); and
3. Federal Housing Administration (FHA) Refinance Program<sup>12</sup>.

The MHA initiative includes among its components the Home Affordable Modification Program (HAMP), FHA-HAMP, the Second Lien Modification Program (2MP), and the second lien extinguishment portion of the FHA-Refinance Program, and Rural Development-HAMP.<sup>13</sup> Under MHA programs, the Treasury contracts with servicers to modify loans in accordance with the program's guidelines, and to make incentive payments to the borrowers, servicers, and investors for those modification or other foreclosure alternatives. As of December 31, 2011, 143 non-GSE mortgage servicers had signed up to participate in the HAMP and over 1.75 million trial modification offers had been extended to borrowers. Nearly 910,000 permanent modifications were initiated as of the end of December 2011, which have saved homeowners nearly \$10 billion in reduced mortgage payments. Program implementation has continually improved since its inception in February 2009. As of December 2011, 83 percent of homeowners who started a trial modification after June 1, 2010, had converted to permanent modifications within an average of 3.5 months – a higher conversion rate and shorter time to convert than earlier in the program. In addition to providing responsible homeowners with sustainable mortgages, the MHA initiative has also, for the

first time, standardized the mortgage modification process across the servicing industry. In January 2012, the Administration extended MHA programs until December 31, 2013.

Treasury also offers other forms of incentives to encourage mortgage loan modifications, or prevent foreclosure under the HAMP, as part of its MHA program. For example, Treasury provides payments to servicers and investors to protect against declining home prices as part of encouraging mortgage modifications in communities that have experienced continued home price depreciation. When a mortgage modification is not possible, Treasury contracts with servicers to provide incentives that encourage borrower short sales (sales for less than the value of the mortgage in satisfaction of the mortgage) or deeds-in-lieu (when the homeowner voluntarily transfers ownership of the property to the servicer in full satisfaction of the total amount due on the mortgage) via the Home Affordable Foreclosure Alternatives Program (HAFA), in order to provide a means for borrowers to avoid foreclosure. Since the inception of the program, over 38,600 HAFA agreements have been initiated.

As part of its ongoing effort to continuously refine the targeting of mortgage assistance to address the sector's greatest needs, the Administration created several programs that will give a greater number of responsible borrowers an opportunity to remain in their homes and reduce costly foreclosures. Major programs announced since December 31, 2009, include:

*Home Affordable Unemployment Program (part of HAMP):* Unemployed borrowers that meet eligibility criteria will receive temporary mortgage payment assistance while they look for a new job. In an effort to keep more unemployed borrowers in their homes and allow them an opportunity to find new employment, Treasury extended the minimum period for which unemployed borrowers receive temporary payment assistance from 3 months to 12 months in July 2011. In response to the Administration's efforts, 12-month forbearance is becoming an industry standard, with Fannie Mae and Freddie Mac now applying it to mortgages they own and Wells Fargo and Bank of America now offering it as their default approach for unemployed borrowers.

*Principal Reduction Alternative (PRA, part of HAMP):* Servicers who have signed up for this program are required to consider an alternative mortgage modification that emphasizes principal relief for borrowers who owe more than their home is worth. Under the alternative approach, if the servicer reduces borrower loan principal using this program, investors will receive incentive payments based on a percentage of each dollar of loan principal written off. Borrowers and investors will receive principal reduction and the incentives, respectively, through a pay-for-success structure. There have been over 36,400 PRA trial modifications initiated as of December 31, 2011, with the median principal amount reduced for active permanent modifications of over \$66,300, representing a median reduction of over 31 percent from the original loan.

*HFA Hardest-Hit Fund (HHF):* The \$7.6 billion HHF provides the eligible entities of Housing Finance Agencies

<sup>11</sup> For additional information on MHA programs, visit: <http://www.makinghomeaffordable.gov/>.

<sup>12</sup> This program has also been referred to as the FHA Short Refinance Program or Option in other reporting. The FHA Refinance Program is not a Treasury program, but is supported through the TARP with nearly \$3.0 billion available to provide incentive payments to extinguish second lien mortgages to facilitate refinancing the first liens, and an additional \$8.1 billion is committed to cover a share of any losses on FHA Refinance loans.

<sup>13</sup> For additional information on MHA programs, visit: <http://www.makinghomeaffordable.gov/>.

from 18 states and the District of Columbia with funding to design and implement innovative programs to prevent foreclosures and bring stability to local housing markets. The Administration targeted areas hardest hit by unemployment and home price declines through the program. Approximately 70 percent of the HHF funds are dedicated to programs that help unemployed borrowers stay in their homes, while the remaining 30 percent of HHF funds facilitate principal write-downs for borrowers who owe more than their home is worth. The flexibility of the HHF funds has allowed States to design and tailor innovative programs to meet the unique needs of their community. For example, Oregon has recently implemented a program through which the state's Housing Finance Agency will purchase mortgages of homeowners who have sustained a financial shock, rehabilitate the loan by reducing the borrowers' principal balance, and subsequently sell the loan after the borrowers' circumstances stabilize and a reliable payment history is established. The design of Oregon's model allows the Housing Finance Agency to generate enough cash flow to create a revolving loan fund that provides on-going support to responsible, but vulnerable homeowners.

*FHA Refinance Program:* This program, which is administered by the Federal Housing Administration and supported by TARP, was initiated in September 2010 and allows eligible borrowers who are current on their mortgage but owe more than their home is worth, to re-finance into an FHA-guaranteed loan if the lender writes off at least 10 percent of the existing loan. Nearly \$3.0 billion in TARP funds allocated under the MHA are available to provide incentive payments to extinguish second lien mortgages to facilitate refinancing the first liens under the MHA, and an additional \$8.1 billion is committed to cover a share of any losses on the loans and administrative expenses. In January 2012, the Administration extended the FHA Refinance Program until December 31, 2014.

**Credit Market Programs.** The Credit Market programs are designed to facilitate lending that supports consumers and small businesses, through the Term Asset-Backed Securities Loan Facility (TALF), the CDCI discussed previously, and the Small Business Administration's guaranteed loan program (SBA 7(a)).

*TALF:* The TALF is a joint initiative with the Federal Reserve that provides financing (TALF loans) to private investors to help facilitate the restoration of efficient and robust secondary markets for various types of credit. The Treasury provides protection to the Federal Reserve through a loan to the TALF's special purpose vehicle (SPV), which was originally available to purchase up to \$20 billion in assets that would be acquired in the event of default on Federal Reserve financing. The Treasury has disbursed \$0.1 billion of this amount to the TALF SPV to implement the program, representing a notional amount used to establish the SPV. The Treasury's total TALF purchases will depend on actual TALF loan defaults. In July 2010, Treasury, in consultation with the Federal Reserve, reduced the maximum amount of assets Treasury will ac-

quire to \$4.3 billion, or 10 percent of the total \$43 billion outstanding in the facility when the program was closed to new lending on June 30, 2010.

*SBA 7(a):* In March 2009, Treasury and the Small Business Administration announced a Treasury program to purchase SBA-guaranteed securities ("pooled certificates") to re-start the secondary market in these loans. Treasury subsequently developed a pilot program to purchase SBA-guaranteed securities, and purchased 31 securities with an aggregate face value of approximately \$368 million. Treasury reduced its commitment to the Small Business 7(a) program from \$1 billion to \$370 million, as demand for the program waned due to significantly improved secondary market conditions for these securities following the original announcement of the program. On June 2, 2011, Treasury began the disposition of its SBA 7(a) securities. As of December 31, 2011, 23 securities have been sold for approximately \$272 million representing an estimated \$4 million return relative to the initial purchase amount for these 23 securities.

**Public Private Investment Program (PPIP).** The Treasury, in conjunction with the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve, introduced the PPIP on March 23, 2009, to address the volatile market cycle affecting troubled legacy assets clogging the balance sheets of private-sector financial institutions. The PPIP is designed to improve the financial position of financial institutions by facilitating the removal of legacy assets from their balance sheets. Legacy assets include both real estate loans held on banks' balance sheets (legacy loans) as well as securities backed by residential and commercial real estate loans (legacy securities). The Treasury implemented the legacy securities PPIP and initially announced that it would provide up to \$100 billion. However, Treasury has subsequently reduced the PPIP commitment twice since the need for Government intervention in the legacy securities market has waned as market conditions have improved and investment of private capital have increased. PPIP closed for new funding on June 30, 2010. The Budget reflects \$21.9 billion in PPIP commitments.

#### Method for Estimating the Cost of TARP Transactions

Exercising its authority under EESA, the Treasury has purchased financial instruments with varying terms and conditions. Consistent with the provisions of Section 123 of EESA, the costs of equity purchases, loans, guarantees, and loss sharing under the FHA Refinance program through the TARP are reflected on a net present value basis, as determined under the Federal Credit Reform Act (FCRA) of 1990 (2 U.S.C. 661 et seq.), with an EESA-required adjustment to the discount rate for market risks. The budgetary cost of these transactions is reflected as the net present value of estimated cash flows to and from the Government, excluding administrative costs. Costs for the incentive payments under TARP Housing programs, other than loss sharing under the FHA Refinance pro-

gram, involve financial instruments without any provision for future returns, and are recorded on a cash basis.<sup>14</sup>

The costs of each transaction reflect the underlying structure of the instruments, which may include direct loans, structured loans, equity, loan guarantees, or direct incentive payments. For each of these instruments, cash flow models are used to estimate future cash flows to and from the Government over the life of a program or facility. Further, each cash flow model reflects the specific terms and conditions of the program, technical assumptions regarding the underlying assets, risk of default or other losses, actual transactions to date, and other factors as appropriate. Models generate cash flows for original subsidy rate estimates; calculate changes in cost due to changes in contract terms or other Government actions (modification cost estimates); and calculate changes in cost due to updated economic or performance assumptions, and actual cash flows to date. The risk adjustments to the discount rates for TARP equity, loan, and guarantee transactions were made using available data and methods to capture additional potential costs related to uncertainty around the expected cash flows to and from the public. The basic methods for each of these models are outlined below.

**Direct Loans.** Direct loan model cash flows include the scheduled principal, interest, and other payments to the Government, including estimated income from warrants or additional notes. These models include estimates of delinquencies, default and recoveries, based on loan-specific factors including the value of any collateral provided by the contract. The probability and timing of default and recoveries are estimated using applicable historical data and econometric projections where available, or publicly available proxy data including aggregated credit rating agency historical performance data.

**Structured Loans.** Structured loans such as the TALF are modeled according to the program structure, where an intermediary special purpose vehicle (SPV) is established to purchase or commit to purchase assets from beneficiaries. In general, TARP structured loans are a hybrid of guarantees and direct loans. The Treasury makes a direct loan to a SPV; the SPV in turn enters into a contract with a beneficiary that resembles a guaranteed loan. Estimated cash flow assumptions reflect the anticipated behavior of the beneficiaries and the cash flows to and from the SPV and the Treasury. The Treasury projects cash flows to and from the Government based on estimated SPV performance, the estimated mix of assets funded through the facility, the terms of the contracts, and other factors.

In the case of the TALF, the New York Federal Reserve created an SPV to purchase and manage assets received in connection with any TALF loans. The Federal Reserve

acquires assets either when a TALF participant defaults on the Federal Reserve financing or chooses to turn over the securing assets in lieu of the scheduled repayment at the end of the term. The SPV has committed, for a fee, to purchase all assets securing a TALF loan that are received by the New York Federal Reserve at a price equal to the TALF loan amount at the time of acquisition, plus accrued but unpaid interest. The Treasury made an initial allotment to the SPV of \$0.1 billion to fund the SPV, and the Treasury will purchase subordinated debt issued by the SPV to finance up to \$4.3 billion of asset purchases. The Treasury receives fees and interest income on the entire outstanding TALF facility, and amounts collected in the SPV.

**Guarantees.** Cost estimates for guarantees reflect the net present value of estimated claim payments by the Government, net of income from fees, recoveries on defaults, or other sources. Under EESA, asset guarantees provided through TARP must be structured such that fees and other income must completely offset estimated losses at the time of commitment. In TARP's Asset Guarantee Program, fees were paid in the form of preferred stock and termination fees. The value of preferred stock is modeled using the same methodology discussed for other equity purchase programs below. Claim payments were modeled consistent with the terms of the guarantee contract, and reflected historical performance data on similar assets and estimates of future economic conditions such as unemployment rates, gross domestic product, and home price appreciation. However, the AGP was terminated with no claim payments made by the Treasury. The budget reflects actual and estimated collections from preferred stock proceeds.

**Equity Purchases.** Preferred stock cash flow projections reflect the risk of losses associated with adverse events, likely failure of an institution, or increases in market interest rates. Estimated cash flows vary depending on: 1) current interest rates, which affect the institution's decision to repay the preferred stock; and 2) the strength of a financial institution's assets. The model also estimates the values and projects the cash flows of warrants using an option-pricing approach based on the current stock price and its volatility. Common equity is valued at market prices as of a fixed date, such as November 30, 2011, for the 2013 Budget. For the purposes of this calculation, common equity is assumed to be sold to the public as soon as is practicable and advisable.

**FHA Refinance Program.** Under this program, the cost estimates reflect the present value of estimated claim payments made from the letter of credit (LOC) provider to the lenders of FHA-guaranteed loans, adjusted for market risks. Treasury has signed a LOC with Citigroup, committing \$8.1 billion of TARP funds to cover a portion of default claims of FHA Refinance mortgages, plus administrative expenses. Through the LOC agreement, Treasury effectively makes claim payments to private lenders for defaulted debt obligations of non-Federal borrowers. Therefore, the program costs are estimated according to the principles of FCRA, with a risk adjustment to the discount rate as prescribed by EESA. The model

<sup>14</sup> Section 123 of the EESA provides the Administration the authority to record TARP equity purchases pursuant to the FCRA, with required adjustments to the discount rate for market risks. The Making Home Affordable programs and HFA Hardest Hit Fund involve the purchase of financial instruments which have no provision for repayment or other return on investment, and do not constitute direct loans or guarantees under FCRA. Therefore these purchases are recorded on a cash basis. Administrative expenses are recorded for all of TARP under the Office of Financial Stability and the Special Inspector General for TARP on a cash basis, consistent with other Federal administrative costs.



**Table 4–1. CHANGE IN PROGRAMMATIC COSTS OF TROUBLED ASSET RELIEF ACTIONS (EXCLUDING DEBT SERVICE)**  
(In billions of dollars)

TARP Actions	2012 MSR		2013 Budget		Change from 2012 MSR to 2013 Budget	
	TARP Obligations <sup>1</sup>	Estimated Cost (+) / Savings (-)	TARP Obligations <sup>1</sup>	Estimated Cost (+) / Savings (-)	TARP Obligations <sup>1</sup>	Estimated Cost (+) / Savings (-)
Equity purchases .....	337.1	5.2	337.1	17.2	.....	11.9
Structured & direct loans and asset-backed security purchases .....	83.0	15.7	83.0	19.1	.....	3.3
Guarantees of troubled asset purchases <sup>2</sup> .....	5.0	-3.6	5.0	-3.6	.....	0.0
TARP housing programs .....	45.6	45.6	45.6	45.6	.....	0.0
<b>Total programmatic costs<sup>3</sup> .....</b>	<b>470.7</b>	<b>62.9</b>	<b>470.7</b>	<b>78.2</b>	.....	<b>15.3</b>
Memorandum:						
<b>Deficit impact before administrative costs and interest effects .....</b>		<b>46.8</b>		<b>67.8</b>		<b>21.0</b>

<sup>1</sup> TARP obligations are net of cancellations.

<sup>2</sup> The face value of assets supported by the Asset Guarantee Program was \$301 billion.

<sup>3</sup> Total programmatic costs of the TARP exclude interest on reestimates of \$16.2 billion in "2012 MSR" and \$10.4 billion in "2013 Budget."

projects TARP claim payments based on projected FHA Refinance volumes and claim rates. The full \$8 billion commitment was obligated at the point the LOC contract was signed, and outlays of subsidy are recorded as the underlying FHA Refinance loans are made.

**Other TARP Housing.** Foreclosure mitigation incentive payments occur when the Government makes incentive payments to borrowers and servicers for certain actions such as: successful modifications of first and second liens, on-schedule borrower payments on those modified loans, protection against further declines in home prices, completing a short sale, or receiving a deed in lieu of foreclosure. The method for estimating these cash flows includes forecasting the total eligible loans, the timing of the loans entering into the program, loan characteristics, the overall participation rate in the program, the re-default rate, home price appreciation, and the size of the incentive payments. For the HFA Hardest-Hit Fund (HHF), the Government provides a cash infusion, similar to a grant, to the eligible entities of state Housing Financing Agencies (HFAs) to design and implement innovative programs to prevent foreclosures and bring stability to local housing markets. The estimated cash flows for the HHF are based on the plans submitted by the HFAs and approved by Treasury, which detail program design and anticipated activity.

### TARP Program Costs and Current Value of Assets

This section provides the special analysis required under Sections 202 and 203 of EESA, including estimates of the cost to taxpayers and the budgetary effects of TARP transactions as reflected in the Budget.<sup>15</sup> This section explains the changes in TARP costs, including whether such changes are due to actual performance, or changes in future expectations. The analysis also includes an estimate of what the budgetary effects would have been had

all TARP transactions been reflected on a cash basis, and also shows the estimated cost for transactions using the standard methodology required under the FCRA, without the adjustment to the discount rate for market risks prescribed by EESA. It also includes a comparison of the cost estimates with previous estimates provided by OMB and the Congressional Budget Office (CBO).

Table 4—1, below, summarizes the current and anticipated activity under TARP, and the estimated lifetime budgetary cost reflected in the Budget, compared to estimates from the 2012 MSR. The direct impact of TARP on the deficit, including interest on reestimates, and using the risk-adjustment to the discount rate required under EESA, is projected to be \$67.8 billion, up \$21.0 billion from \$46.8 billion as projected in the 2012 MSR. The subsidy cost represents the lifetime net present value cost of TARP obligations from the date the obligations originated. The subsidy cost for TARP excluding interest on reestimates is now estimated to be \$78.2 billion.<sup>16</sup> The eventual subsidy cost of TARP is likely to be lower than the current subsidy cost because projected cashflows are discounted using a risk adjustment to the discount rate as required by EESA, which adds a premium to current estimates of TARP costs on top of market risks already reflected in cash flows with the public. If actual cash flows match projections, the risk premium added to TARP costs is essentially returned via downward subsidy reestimates over time. While TARP's overall cost to taxpayers will likely be lower than current estimates, the final cost will not be fully known until all TARP investments are extinguished.

**Current Value of Assets.** The current value of future cash flows related to TARP transactions can also be measured by the balances in the program's non-budgetary credit financing accounts. Under the FCRA budgetary accounting structure, the net debt or cash balances in non-budgetary credit financing accounts at the end of each fiscal year reflect the present value of anticipated

<sup>15</sup> The analysis does not assume the effects on net TARP costs of a recoupment proposal authorized under Section 134 of EESA. Please see Chapter 2 for discussion of the Financial Crisis Responsibility Fee.

<sup>16</sup> With the exception of the Making Home Affordable and HFA Hardest-Hit Fund programs, all the other TARP investments are reflected on a present value basis pursuant to the FCRA.

**Table 4-2. TROUBLED ASSET RELIEF PROGRAM CURRENT VALUE <sup>1</sup>**  
(In billions of dollars)

	Actual			Estimate											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
<b>Financing account balances:</b>															
Troubled Asset Relief Program Equity Purchase Financing Account ..	105.4	76.9	74.9	48.2	33.2	18.2	13.6	12.5	8.9	7.1	5.8	2.4	2.1	1.9	
Troubled Asset Relief Program Direct Loan Financing Account .....	23.9	42.7	28.5	20.2	12.0	9.7	6.7	3.8	0.9	0.6	0.5	0.1	0.1	0.1	
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account .....	0.6	2.4	0.8	0.8	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account .....			-*	-2.8	-5.1	-6.8	-6.3	-4.8	-3.3	-2.0	-0.9				
<b>Total financing account balances .....</b>	<b>129.9</b>	<b>122.0</b>	<b>104.1</b>	<b>66.4</b>	<b>40.5</b>	<b>21.3</b>	<b>14.2</b>	<b>11.6</b>	<b>6.6</b>	<b>5.7</b>	<b>5.4</b>	<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	

\* \$50 million or less.

<sup>1</sup> Current value as reflected in the 2013 Budget. Amounts exclude the Making Home Affordable and HFA Hardest Hit Fund, activities that are reflected on a cash basis.

cashflows to and from the public.<sup>17</sup> So, the net debt or cash balances reflect the expected present value of the asset or liability. Future collections from the public – such as proceeds from stock sales, or payments of principal and interest – are financial assets, just as future payments to the public are financial liabilities. The current year reestimates effectively true-up the net debt or cash balance in the financing account, with updated estimates of the present value of these financial assets or liabilities. For example, if an asset is valued at \$100 million and the net debt in the financing account is \$90 million, there will be a downward reestimate, returning the \$10 million in excess subsidy to the General Fund. Accordingly, the net debt balance in the financing account after the reestimate will be \$100 million—equal to the reestimated value of the asset. The larger the subsidy cost for a given loan disbursed or equity purchased, the lower the estimated value of the cash flows from the public and asset value to the Government.<sup>18</sup>

Table 4-2 shows the actual balances of TARP financing accounts as of the end of 2011, and projected balances for each subsequent year through 2022.<sup>19</sup> Actual net balances in financing accounts at the end of 2009 totaled \$129.9 billion. By the end of 2011, total financing account balances decreased to \$104.1 billion, as repayments, primarily from large banks, exceeded disbursements of TARP assistance committed in prior years. Estimates in 2012 and beyond reflect reestimated value for TARP investments outstanding as of September 30, 2011, and all other an-

<sup>17</sup> For example, to disburse a loan to a borrower, a direct loan financing account receives the subsidy cost from the program account. The financing account borrows the difference between the face value of the loan and the subsidy cost from the Treasury. As inflows from the public are received, the value is realized and these amounts are used to repay the financing account's debt to Treasury.

<sup>18</sup> As an extreme example, a direct loan program with 100 percent subsidy cost would require budget authority for the full amount of the loan. The financing account would receive the entire amount of a loan disbursement from the budgetary program account, and would not have to borrow from the Treasury. In this case, the loan would be estimated to have a zero asset value.

<sup>19</sup> Reestimates for TARP are calculated using actual data through September 30, 2011, and updated projections of future activity. Thus, the full impacts of TARP reestimates are reflected in the 2012 financing account balances.

ticipated transactions. The value of TARP assets is expected to fall by the end of 2012 to \$66.4 billion, based on risk adjusted discount rates. To view net TARP costs, the value of these outstanding assets could be compared against the costs TARP incurred to acquire the assets. The expected decrease during 2012 is primarily due to winding down TARP assets and an upward reestimate for outstanding investments to be executed in 2012. The upward reestimates are driven primarily by the lower value of AIG and AIFP investments, offset in part by downward reestimates associated with the Legacy Securities Public-Private Partnership Program. The overall balance of the financing accounts is estimated to continue to fall significantly as TARP investments wind down, to \$40.5 billion in 2013, and \$21.3 billion in 2014, and is expected to continue to decrease over time as the assets and loans acquired under the TARP program are repaid or sold, and liabilities funded.

The value of TARP equity purchases reached \$76.9 billion in 2010, and fell \$2 billion in 2011 reflecting the 2011 downward reestimate, final AIG funding, and repayments from large financial institutions. The value of the TARP equity portfolio is anticipated to continue declining as participants repurchase stock and assets are sold. The value of direct loans is expected to decrease to \$20.2 billion in 2012, gradually declining to \$0.1 billion by 2020 as loans are repaid and warrants and other assets are sold. The \$0.8 billion value under the Asset Guarantee Program (AGP) in 2012 reflects the estimated value of warrants held by the Treasury and the expected receipt of trust preferred shares from the FDIC following termination of the guarantee on Citigroup assets. The value of the AGP is expected to decline, as preferred stock and warrants are sold. The FHA Refinance program reflects net cash balances, showing the reserves set aside to cover TARP's share of default claims for FHA Refinance mortgages over the 10-year letter of credit facility. These cash balances fall as claims are paid, and reach zero by 2020 as the TARP coverage expires.

Where Table 4-2 displays the estimated value of TARP investments, guarantees, and loss share agreements over time, Table 4-3 shows the estimated face value of outstanding TARP investments at the end of each year

**Table 4-3. TROUBLED ASSET RELIEF PROGRAM FACE VALUE OF TARP OUTSTANDING<sup>1</sup>**  
(In billions of dollars)

	Actual			Estimate	
	2009	2010	2011	2012	2013
Troubled Asset Relief Program Equity Purchases .....	229.6	119.0	88.2	72.3	54.4
Troubled Asset Relief Program Direct Loans .....	60.5	15.7	11.5	12.4	11.5
Troubled Assets Insurance Financing Fund Guaranteed Assets .....	251.4	.....	.....	.....	.....
FHA Refinance Letter of Credit .....	.....	.....	0.1	51.9	100.5
<b>Total face value of TARP outstanding .....</b>	<b>541.5</b>	<b>134.7</b>	<b>99.8</b>	<b>136.6</b>	<b>166.4</b>

<sup>1</sup> Table reflects face value of TARP outstanding direct loans, preferred stock equity purchases, guaranteed assets, and the face value of FHA Refinance mortgages supported by the TARP Letter of Credit. Financial instrument purchases under the Making Home Affordable Program and HFA Hardest Hit Fund are reflected in the budget on a cash basis, and are not included here.

through 2013. For equity investments, the par value of Treasury's remaining investment is reflected. The outstanding amount of equity investments overall decreased in 2011, as repurchases of equity investments exceeded AIG disbursements. Direct loans increase with planned disbursements under the PPIP program, and fall in 2013 as loans are repaid. Under FCRA, the total outstanding reflects the full face value of loans supported by a Federal guarantee, any portion of which may be guaranteed. TARP's liability under the Asset Guarantee Program was only a fraction of the face value of the underlying loans (see Table 4-6), and is currently zero, with the termination of the Citibank guarantee in 2009. Likewise, the full face value of FHA Refinance mortgages supported by the letter of credit facility far exceeds TARP's liability, which is capped at \$8.1 billion (including \$100 million set aside for administrative fees). The TARP coverage ratio or share of default losses was 8.85 percent in 2011 and is estimated to be 15.57 percent in 2012. The face value of FHA refi loans supported by the TARP LOC was less than \$0.1 billion in 2011, but is expected to increase to more than \$51.9 billion in 2012 and \$100.5 billion in 2013. The overall outstanding face value of TARP investments, loan guarantees, and mortgages supported by the FHA Refinance Letter of Credit is projected to reach \$166.4 billion in 2013.

#### **Estimate of the Deficit, Debt Held by the Public, and Gross Federal Debt, Based on the EESA Methodology**

The estimates of the deficit and debt in the Budget reflect the impact of TARP as estimated under FCRA and Section 123 of EESA. The deficit estimates include the budgetary costs for each program under TARP, administrative expenses, certain indirect interest effects of credit programs, and the debt service cost to finance the program. Direct activity under the TARP is expected to increase the 2012 deficit by \$34.7 billion, which is largely attributable to net upward reestimates of program costs totaling \$21.1 billion (including interest on reestimates) and outlays for TARP housing programs estimated to be \$13.6 billion. The total deficit effect including interest effects is estimated at \$31.0 billion for 2012. The estimates of U.S. Treasury debt attributable to TARP include both borrowing to finance the deficit impacts of TARP activity and the cash flows to and from the Government, reflected

as a means of financing in the TARP financing accounts. Estimated debt due to TARP at the end of 2012 is \$101.8 billion, and this figure declines to \$77.1 billion in 2014 as TARP loans are repaid and TARP equity purchases are sold or redeemed. Even as the TARP program is winding down, the debt due to TARP increases annually starting in 2015, with additional borrowing to finance the debt service on past TARP costs.

Debt held by the public net of financial assets reflects the cumulative amount of money the Federal Government has borrowed from the public for the program and not repaid, minus the current value of financial assets acquired with the proceeds of this debt, such as loan assets, or equity held by the Government. While debt held by the public is one useful measure for examining the impact of TARP, it provides incomplete information on the program's effect on the Government's financial condition. Debt held by the public net of financial assets provides a more complete picture of the U.S. Government's financial position because it reflects the net change in the government's balance sheet due to the program.

Debt net of financial assets due to the TARP program is estimated to be \$35.4 billion as of the end of 2012. This is \$21.1 billion higher than the projected 2012 debt held net of financial assets reflected in the 2012 MSR, primarily due to net increases in TARP subsidy costs reflected in the 2012 reestimates.

Under the FCRA, the financing account earns and pays interest on its Treasury borrowings at the same rate used to discount cash flows for the credit subsidy cost. Section 123 of EESA requires an adjustment to the discount rate used to value TARP subsidy costs, to account for market risks.

However, actual cash flows as of September 30, 2011, already reflect the effect of any incurred market risks to that point, and therefore actual financing account interest transactions reflect the FCRA Treasury interest rates present in these years, with no additional risk adjustment.<sup>20</sup> Future cash flows reflect a risk adjusted discount rate and the corresponding financing account interest

<sup>20</sup> As TARP transactions wind down, the final lifetime cost estimates under the requirements of Section 123 of EESA will reflect no adjustment to the discount rate for market risks, as these risks have already been realized in the actual cash flows. Therefore, the final subsidy cost for TARP transactions will equal the cost per FCRA, where the net present value costs are estimated by discounting cashflows using Treasury rates.

**Table 4–4. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT <sup>1</sup>**  
(Dollars in billions)

	Actual			Estimate										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Deficit effect:</b>														
Programmatic and administrative expenses:														
Programmatic expenses:														
Equity purchases .....	115.3	8.4	19.1	0.2	*	.....	.....	.....	.....	.....	.....	.....	.....	.....
Direct loans and purchases of asset-backed securities ...	36.9	-0.9	-0.3	-0.3	-*	.....	.....	.....	.....	.....	.....	.....	.....	.....
Guarantees of troubled asset purchases .....	-1.0	-1.4	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
TARP housing programs .....	*	0.5	1.9	13.6	12.1	8.1	5.4	2.4	1.2	0.2	*	*	.....	.....
Reestimates of credit subsidy costs .....	.....	-116.5	-58.5	21.1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Subtotal, programmatic expenses .....	151.2	-109.9	-37.7	34.7	12.1	8.1	5.4	2.4	1.2	0.2	*	*	.....	.....
Administrative expenses .....	0.1	0.2	0.4	0.5	0.3	0.2	0.2	0.2	0.1	0.1	*	*	*	*
Special Inspector General for TARP .....	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Subtotal, programmatic & administrative expenses .....	151.3	-109.6	-37.3	35.2	12.5	8.4	5.6	2.6	1.4	0.4	0.1	0.1	0.1	0.1
Interest effects:														
Interest transactions with credit financing accounts <sup>2</sup> .....	-2.8	-4.7	-3.0	-7.5	-4.8	-3.0	-2.2	-1.8	-1.7	-1.4	-1.2	-1.0	-0.3	-0.2
Debt service <sup>3</sup> .....	2.8	4.7	3.0	3.3	3.4	3.9	4.7	5.4	5.6	5.5	5.2	4.8	4.6	4.2
Subtotal, interest effects .....	*	*	*	-4.2	-1.4	0.9	2.5	3.6	3.9	4.1	4.0	3.9	4.4	3.9
<b>Total deficit impact .....</b>	<b>151.3</b>	<b>-109.6</b>	<b>-37.3</b>	<b>31.0</b>	<b>11.1</b>	<b>9.3</b>	<b>8.1</b>	<b>6.1</b>	<b>5.3</b>	<b>4.4</b>	<b>4.1</b>	<b>3.9</b>	<b>4.5</b>	<b>4.0</b>
<b>Other TARP transactions affecting borrowing from the public — net disbursements of credit financing accounts:</b>														
Troubled Asset Relief Program Equity Purchase Financing Account .....	105.4	-28.5	-2.0	-26.7	-14.9	-15.0	-4.5	-1.2	-3.6	-1.8	-1.2	-3.4	-0.2	-0.2
Troubled Asset Relief Program Direct Loan Financing Account .....	23.9	18.8	-14.2	-8.3	-8.2	-2.3	-3.0	-2.9	-2.8	-0.3	-0.2	-0.4	.....	.....
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account .....	0.6	1.8	-1.6	*	-0.4	-0.2	-0.1	-*	-*	-*	-*	-*	-*	-*
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account .....	.....	.....	-*	-2.8	-2.4	-1.7	0.5	1.5	1.5	1.3	1.1	0.9	.....	.....
Total, other transactions affecting borrowing from the public .....	129.9	-7.9	-17.8	-37.7	-25.9	-19.1	-7.1	-2.6	-5.0	-0.8	-0.3	-2.9	-0.3	-0.2
<b>Change in debt held by the public .....</b>	<b>281.2</b>	<b>-117.5</b>	<b>-55.1</b>	<b>-6.7</b>	<b>-14.8</b>	<b>-9.8</b>	<b>1.0</b>	<b>3.5</b>	<b>0.3</b>	<b>3.6</b>	<b>3.8</b>	<b>1.0</b>	<b>4.2</b>	<b>3.8</b>
<b>Debt held by the public .....</b>	<b>281.2</b>	<b>163.6</b>	<b>108.5</b>	<b>101.8</b>	<b>87.0</b>	<b>77.1</b>	<b>78.2</b>	<b>81.7</b>	<b>81.9</b>	<b>85.5</b>	<b>89.3</b>	<b>90.4</b>	<b>93.6</b>	<b>97.4</b>
As a percent of GDP .....	2.0%	1.1%	0.7%	0.7%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
<b>Debt held by the public net of financial assets:</b>														
Debt held by the public .....	281.2	163.6	108.5	101.8	87.0	77.1	78.2	81.7	81.9	85.5	89.3	90.4	93.6	97.4
Less financial assets net of liabilities — credit financing account balances:														
Troubled Assets Relief Program Equity Purchase Financing Account .....	105.4	76.9	74.9	48.2	33.2	18.2	13.6	12.5	8.9	7.1	5.8	2.4	2.1	1.9
Troubled Asset Relief Program Direct Loan Financing Account .....	23.9	42.7	28.5	20.2	12.0	9.7	6.7	3.8	0.9	0.6	0.5	0.1	0.1	0.1
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account .....	0.6	2.4	0.8	0.8	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Troubled Assets Relief Program FHA Refinance Letter of Credit Financing Account .....	.....	.....	-*	-2.8	-5.1	-6.8	-6.3	-4.8	-3.3	-2.0	-0.9	.....	.....	.....
Total, financial assets net of liabilities .....	129.9	122.0	104.1	66.4	40.5	21.3	14.2	11.6	6.6	5.7	5.4	2.5	2.3	2.1
<b>Debt held by the public net of financial assets .....</b>	<b>151.3</b>	<b>41.6</b>	<b>4.4</b>	<b>35.4</b>	<b>46.5</b>	<b>55.8</b>	<b>63.9</b>	<b>70.1</b>	<b>75.3</b>	<b>79.8</b>	<b>83.9</b>	<b>87.8</b>	<b>91.3</b>	<b>95.3</b>
As a percent of GDP .....	1.1%	0.3%	0.0%	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%

\* \$50 million or less.

<sup>1</sup> Table reflects the deficit effects of the TARP program, including administrative costs and interest effects.

<sup>2</sup> Projected Treasury interest transactions with credit financing accounts are based on the market-risk adjusted rates. Actual credit financing account interest transactions reflect the appropriate Treasury rates under the FCRA.

<sup>3</sup> Includes estimated debt service effects of all TARP transactions that affect borrowing from the public.



rate, consistent with the EESA requirement. For on-going TARP credit programs, the risk adjusted discount rates on future cash flows result in subsidy costs that are higher than subsidy costs estimated under FCRA.

### Estimates on a Cash Basis

The value to the Federal Government of the assets acquired through TARP is the same whether the costs of acquiring the assets are recorded in the budget on a cash basis, or a credit basis. As noted above, the budget records the cost of equity purchases, direct loans, and guarantees as the net present value cost to the Government, discounted at the rate required under the FCRA and adjusted for market risks as required under Section 123 of EESA. Therefore, the net present value cost of the assets is reflected on-budget, and the gross value of these assets is reflected in the financing accounts.<sup>21</sup> If these pur-

<sup>21</sup> For the Making Home Affordable programs and the HFA Hardest Hit Fund, Treasury's purchase of financial instruments does not result in the acquisition of an asset with potential for future cash flows, and therefore are recorded on a cash basis.

chases were instead presented in the Budget on a cash basis, the Budget would reflect outlays for each disbursement (whether a purchase, a loan disbursement, or a default claim payment), and offsetting collections as cash is received from the public, with no obvious indication of whether the outflows and inflows leave the Government in a better or worse financial position, or what the net value of the transaction is.

### Revised Estimate of the Deficit, Debt Held by the Public, and Gross Federal Debt Based on the Cash-basis Valuation

Estimates of the deficit and debt under TARP transactions calculated on a cash basis are reflected in Table 4–5, for comparison to those estimates in Table 4–4 reported above in which TARP transactions are calculated consistently with FCRA and Section 123 of EESA.

If TARP transactions were reported on a cash basis, the annual budgetary effect would include the full amount of government disbursements for activities such as equity purchases and direct loans, offset by cash inflows from

**Table 4–5. TROUBLED ASSET RELIEF PROGRAM EFFECTS ON THE DEFICIT AND DEBT CALCULATED ON A CASH BASIS<sup>1</sup>**  
(Dollars in billions)

	Actual			Estimate											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
<b>Deficit effect:</b>															
Programmatic and administrative expenses:															
Programmatic expenses:															
Equity purchases .....	217.6	-121.9	-36.8	-16.8	-18.6	-17.4	-6.0	-2.2	-4.5	-2.5	-1.7	-3.8	-0.5	-0.4	
Direct loans and purchases of asset-backed securities ...	61.1	-1.0	-21.3	-4.6	-9.3	-2.7	-3.3	-3.1	-2.9	-0.3	-0.2	-0.4	.....	.....	
Guarantees of troubled asset purchases .....	-0.5	-0.3	-2.3	*	-0.5	-0.2	-0.1	..*	..*	..*	..*	..*	..*	..*	
TARP housing programs .....	*	0.5	1.9	10.9	9.8	6.3	5.6	3.3	2.0	0.8	0.4	0.3	.....	.....	
Subtotal, programmatic expenses .....	278.3	-122.6	-58.5	-10.5	-18.6	-14.0	-3.9	-2.1	-5.5	-2.0	-1.5	-3.9	-0.5	-0.4	
Administrative expenses .....	0.1	0.2	0.4	0.5	0.3	0.2	0.2	0.2	0.1	0.1	*	*	*	*	
Special Inspector General for TARP .....	*	*	*	*	*	*	*	*	*	*	*	*	*	*	
Subtotal, programmatic & administrative expenses .....	278.4	-122.3	-58.1	-10.0	-18.2	-13.7	-3.7	-1.9	-5.3	-1.9	-1.4	-3.8	-0.4	-0.4	
Debt service <sup>2</sup> .....	2.8	4.7	3.0	3.3	3.4	3.9	4.7	5.4	5.6	5.5	5.2	4.8	4.6	4.2	
<b>Total deficit impact .....</b>	<b>281.2</b>	<b>-117.5</b>	<b>-55.1</b>	<b>-6.7</b>	<b>-14.8</b>	<b>-9.8</b>	<b>1.0</b>	<b>3.5</b>	<b>0.3</b>	<b>3.6</b>	<b>3.8</b>	<b>1.0</b>	<b>4.2</b>	<b>3.8</b>	
<b>Change in debt held by the public .....</b>	<b>281.2</b>	<b>-117.5</b>	<b>-55.1</b>	<b>-6.7</b>	<b>-14.8</b>	<b>-9.8</b>	<b>1.0</b>	<b>3.5</b>	<b>0.3</b>	<b>3.6</b>	<b>3.8</b>	<b>1.0</b>	<b>4.2</b>	<b>3.8</b>	
<b>Debt held by the public .....</b>	<b>281.2</b>	<b>163.6</b>	<b>108.5</b>	<b>101.8</b>	<b>87.0</b>	<b>77.1</b>	<b>78.2</b>	<b>81.7</b>	<b>81.9</b>	<b>85.5</b>	<b>89.3</b>	<b>90.4</b>	<b>93.6</b>	<b>97.4</b>	
As a percent of GDP .....	2.0%	1.1%	0.7%	0.7%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	
<b>Debt held by the public net of financial assets:</b>															
Debt held by the public .....	281.2	163.6	108.5	101.8	87.0	77.1	78.2	81.7	81.9	85.5	89.3	90.4	93.6	97.4	
Less financial assets net of liabilities — credit financing account balances:															
Troubled Asset Relief Program Equity Purchase Financing Account .....	105.4	76.9	74.9	48.2	33.2	18.2	13.6	12.5	8.9	7.1	5.8	2.4	2.1	1.9	
Troubled Asset Relief Program Direct Loan Financing Account .....	23.9	42.7	28.5	20.2	12.0	9.7	6.7	3.8	0.9	0.6	0.5	0.1	0.1	0.1	
Troubled Assets Insurance Financing Fund Guaranteed Loan Financing Account .....	0.6	2.4	0.8	0.8	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
FHA Refinance Letter of Credit Financing Account .....	.....	.....	..*	-2.8	-5.1	-6.8	-6.3	-4.8	-3.3	-2.0	-0.9	.....	.....	.....	
Total, financial assets net of liabilities .....	129.9	122.0	104.1	66.4	40.5	21.3	14.2	11.6	6.6	5.7	5.4	2.5	2.3	2.1	
<b>Debt held by the public net of financial assets .....</b>	<b>151.3</b>	<b>41.6</b>	<b>4.4</b>	<b>35.4</b>	<b>46.5</b>	<b>55.8</b>	<b>63.9</b>	<b>70.1</b>	<b>75.3</b>	<b>79.8</b>	<b>83.9</b>	<b>87.8</b>	<b>91.3</b>	<b>95.3</b>	
As a percent of GDP .....	1.1%	0.3%	0.0%	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	

\* \$50 million or less.

<sup>1</sup> Table reflects deficit effect of budgetary costs, substituting estimates calculated on a cash basis for estimates calculated under FCRA and Sec. 123 of EESA.

<sup>2</sup> Includes estimated debt service effects of all TARP transactions affecting borrowing from the public.



dividend payments, redemptions, and loan repayments occurring in each year. For loan guarantees, the deficit would show fees, claim payouts, or other cash transactions associated with the guarantee as they occurred. Updates to estimates of future performance would impact the deficit in the year that they occur, and there would not be credit reestimates.

Under cash reporting, TARP would reduce the deficit in 2012 by an estimated \$6.7 billion, so the 2012 deficit would be \$37.7 billion lower if TARP were reflected on a cash basis than the estimate in the Budget. The deficit would be lower because repayments and proceeds of sales that are now included in non-budgetary financing accounts for TARP would be reflected as offsetting receipts when they occur. Under FCRA, the marginal change in the present value attributable to better-than-expected future inflows from the public would be recognized up front in a downward reestimate, in contrast with a cash-based treatment that would show the annual marginal changes in cash flows. However, the impact of TARP on the Federal debt, and on debt held net of financial assets, is the same on a cash basis as under FCRA.

#### **Portion of the Deficit Attributable to TARP, and the Extent to Which the Deficit Impact is Due to a Reestimate**

Table 4–4 shows the portion of the deficit attributable to TARP transactions. The largest changes in the overall TARP effects on the deficit are the result of reestimates of TARP activity outstanding as of September 30, 2011, and November 30, 2011. The specific effects are as follows:

- TARP reestimates and interest on reestimates will increase the deficit by \$21.1 billion in 2012, including \$15.2 billion in increased subsidy costs for TARP programs, and \$5.9 billion in interest on reestimates.
- Program costs for purchases of assets including costs associated with PPIP investments, MHA incentive payments, FHA Refinance program loss sharing, and modifications of existing TARP activity (excluding reestimates) are estimated to increase the deficit by \$13.6 billion in 2012, \$3.6 billion less than the estimated 2012 deficit effects reflected in the 2012 MSR. This decrease is primarily due to the extension of TARP housing programs.
- TARP equity purchase outlays in 2012 are estimated to increase the deficit by \$0.2 billion due to the drawing of additional capital by the PPIP fund managers. Subsidy costs associated with new disbursements of direct loans from previous TARP obligations are estimated to result in a \$0.3 billion reduction in net outlays in 2012, largely due to expected returns from PPIP debt purchases. These amounts have not changed since the 2012 MSR. Outlays for the TARP Housing Programs are estimated at \$13.6 billion in 2012, which includes payments under the MHA program, Hardest Hit Fund, and subsidy costs for the FHA Refinance program. Outlays for TARP Housing Program are estimated to increase through 2014, and then decline gradually through 2021.

- Administrative expenses for TARP are estimated at \$0.3 billion in 2013, and expected to decrease annually as TARP winds down through 2022. Costs for the Special Inspector General for TARP are estimated at less than \$0.1 billion in 2013, and are expected to remain relatively stable through 2022.
- Interest transactions with credit financing accounts include interest paid to Treasury on borrowing by the financing accounts, offset by interest paid by Treasury on the financing accounts' uninvested balances. Although the financing accounts are non-budgetary, Treasury payments to these accounts and receipt of interest from them are budgetary transactions and therefore affect net outlays and the deficit. For TARP financing accounts, projected interest transactions are based on the market risk adjusted rates used to discount the cash flows. The projected net financing account interest paid to Treasury at market risk adjusted rates is \$7.5 billion in 2012 and declines over time as the financing accounts repay borrowing from Treasury through investment sale proceeds and repayments on TARP equity purchases and direct loans.

The full impact of TARP on the deficit includes the estimated cost of Treasury borrowing from the public – debt service – for the outlays listed above. Debt service is estimated at \$3.3 billion for 2012 (as shown in Table 4–4), and then expected to increase to \$5.6 billion by 2017 due to TARP housing. Total debt service will continue over time after the TARP winds down, due to the financing of past TARP costs.

**Analysis of TARP Reestimates.** The costs of outstanding TARP assistance are reestimated annually by updating cash flows for actual experience and new assumptions, and adjusting for any changes by either recording additional subsidy costs (an upward technical and economic reestimate) or by reducing subsidy costs (a downward reestimate). The reestimated dollar amounts to be recorded in 2012 reflect TARP disbursements through September 30, 2011, while reestimated subsidy rates reflect the full lifetime costs, including anticipated future disbursements. As noted above, the total increase in the deficit attributable to TARP reestimates in 2012 is \$21.1 billion, reflecting a \$15.2 billion net upward reestimate of the subsidy cost, plus \$5.9 billion in interest on the reestimates. Detailed information on upward and downward reestimates to program is reflected in Table 4–6.

The current reestimate reflects an increase in estimated TARP costs from the 2012 Budget. Increased subsidy costs for AIG investments, AIFP, and the AGP program are due to weaker market conditions and performance expectations compared to 2012 Budget estimates, resulting in a lower estimated value of Treasury holdings. The subsidy cost for outstanding TARP equity is estimated to be substantially lower than originally estimated overall. The majority of reduced subsidy costs reflect significant repayments of CPP and TIP investments by financial institutions and higher-than-anticipated income from dividends and the sale of preferred, common stock or war-

**Table 4-6. TROUBLED ASSET RELIEF PROGRAM REESTIMATES**  
(Dollars in billions)

TARP Program and Cohort Year	Original subsidy rate	Current reestimate rate	Current reestimate amount	Net lifetime reestimate amount, excluding interest	TARP disbursements as of 9/30/2011
<b>Equity programs:</b>					
Automotive Industry Financing Program (Equity) .....					
2009 .....	54.52%	42.64%	3.6	-3.1	12.5
2010 .....	30.25%	9.68%	0.2	-0.7	3.8
Capital Purchase Program					
2009 .....	26.99%	-5.63%	-1.1	-63.1	204.6
2010 .....	5.77%	18.17%	-0.0	0.0	0.3
AIG Investments					
2009 .....	82.78%	32.85%	14.6	-32.0	67.8
Legacy Securities Public-Private Investment Program .....					
2009 .....	34.62%	-20.80%	-0.0	-0.3	0.7
2010 .....	22.97%	-45.90%	-2.4	-4.0	6.5
Targeted Investment Program					
2009 .....	48.85%	-8.47%	0.0	-23.2	40.0
Community Development Capital Initiative					
2010 .....	48.06%	27.19%	-0.1	-0.1	0.6
<b>Subtotal equity program reestimates</b> .....			<b>14.9</b>	<b>-126.4</b>	<b>336.8</b>
<b>Structured and direct loan programs:</b>					
Automotive Industry Financing Program (AIFP) .....					
2009 .....	58.75%	28.34%	6.2	-17.70	63.4
Legacy Securities Public Private Investment Program					
2009 .....	-2.52%	3.02%	-0.1	0.1	1.4
2010 .....	-10.85%	2.18%	0.3	1.6	13.0
Small Business Lending Initiative 7(a) purchases					
2010 .....	0.48%	-0.86%	-0.0	-0.0	0.4
Term-Asset Backed Securities Loan Facility <sup>1</sup>					
2009 .....	-104.23%	-407.95%	-0.1	-0.3	0.1
<b>Subtotal direct loan program reestimates</b> .....			<b>6.2</b>	<b>-16.3</b>	<b>78.2</b>
<b>Guarantee programs:</b>					
Asset Guarantee Program <sup>2</sup>					
2009 .....	-0.25%	-1.10%	0.0	-1.18	301.0
<b>Total TARP reestimates</b> .....			<b>21.1</b>	<b>-143.9</b>	<b>716.0</b>

<sup>1</sup> The Term-Asset Backed Securities Loan Facility subsidy rate is calculated as a percent of estimated lifetime disbursements.

<sup>2</sup> Disbursement amount reflects the face value of assets supported by the guarantee. The TARP obligation for this program was \$5 billion, the maximum contingent liability while the guarantee was in force.

rants in prior years. The \$4.3 billion TALF facility reflects a downward reestimate and is estimated to generate a return of \$0.4 billion to the Treasury, primarily due to fees. The subsidy rate for TALF is based on disbursements, and the Treasury only expects to purchase a small amount of the total \$4.3 billion commitment but will collect fees on the full TALF facility.

### Differences Between Current and Previous OMB Estimates

As shown in Table 4-7, the Budget reflects a total TARP deficit impact of \$67.8 billion. This is an increase of \$21.0 billion from the 2012 MSR projection of \$46.8 billion and \$14.6 billion from the June 30th valuation of \$53.2 mil-

lion. This increase is primarily due to increased estimates of the cost of TARP investments and guarantees. The reestimates performed for MSR do not include updates to estimated subsidy rates or market valuations, such as for common stock held by Treasury. Therefore, the June 30th valuation, being more comparable to the reestimates performed for the Budget because it includes adjustments to reflect recent market performance, is presented in Table 4-7 as a source of comparison.

The estimated TARP deficit impact differs from the subsidy cost of \$78.2 billion in the Budget because the deficit impact reflects a \$10.4 billion cumulative downward adjustment for interest on reestimates. These adjustments account for the time between when the subsidy

**Table 4–7. DETAILED TARP PROGRAM LEVELS AND COSTS**  
(In billions of dollars)

Program	June 30th Valuation		2013 Budget	
	TARP Obligations	Subsidy Costs	TARP Obligations	Subsidy Costs
<b>Equity programs:</b>				
Capital Purchase Program .....	204.9	-7.2	204.9	-6.7
AIG Investments <sup>1</sup> .....	67.8	19.8	67.8	24.0
Targeted Investment Program .....	40.0	-3.6	40.0	-3.6
Automotive Industry Financing Program (AIFP) .....	16.3	3.2	16.3	5.5
Public-Private Investment Program - Equity .....	7.5	-1.9	7.5	-2.2
Community Development Capital Initiative .....	0.6	0.2	0.6	0.2
Subtotal equity programs .....	337.1	10.4	337.1	17.2
<b>Direct loan programs:</b>				
Automotive Industry Financing Program (AIFP) <sup>2</sup> .....	63.4	16.5	63.4	19.3
Term Asset-Backed Securities Loan Facility (TALF) .....	4.3	-0.3	4.3	-0.4
Public-Private Investment Program - Debt .....	14.9	*	14.9	0.2
Small Business 7(a) Program .....	0.4	*	0.4	*
Subtotal direct loan programs .....	83.0	16.6	83.0	19.1
<b>Guarantee programs under Section 102:</b>				
Asset Guarantee Program .....	5.0	-3.7	5.0	-3.6
Non-Add Asset Guarantee Program Face Value .....	301.0		301.0	
Subtotal asset guarantees .....	5.0	-3.7	5.0	-3.6
<b>TARP housing programs:</b>				
Making Home Affordable (MHA) Programs .....	29.9	29.9	29.9	29.9
HFA Hardest Hit Fund .....	7.6	7.6	7.6	7.6
Subtotal non-credit programs .....	37.5	37.5	37.5	37.5
FHA Refinance Letter of Credit .....	8.1	8.1	8.1	8.1
Subtotal TARP housing programs .....	45.6	45.6	45.6	45.6
<b>Totals .....</b>	<b>470.7</b>	<b>69.0</b>	<b>470.7</b>	<b>78.2</b>
Memorandum:				
Interest on reestimates <sup>3</sup> .....		-15.8		-10.4
<b>Deficit impact before administrative costs and interest effects .....</b>		<b>53.2</b>		<b>67.8</b>

\* \$50 million or less.

<sup>1</sup> June 30<sup>th</sup> Valuation reflects the cancelation of AIG's outstanding \$2 billion credit facility with Treasury.

<sup>2</sup> June 30<sup>th</sup> Valuation reflects the Chrysler Group LLC termination of a remaining \$2.1 billion TARP loan commitment.

<sup>3</sup> Interest on reestimates is an adjustment for interest effects of changes in TARP subsidy costs from original subsidy estimates; such amounts are a component of the deficit impacts of TARP programs but are not direct programmatic costs.

cost was originally estimated and the time when the reestimate is booked.

### Differences Between OMB and CBO Estimates

Table 4–8 compares the subsidy cost for TARP reflected in MSR against the costs estimated by the Congressional Budget Office in its “Report on the Troubled Asset Relief Program – December 2011.” <sup>22</sup>

CBO estimates the total cost of TARP at \$34 billion, based on estimated lifetime TARP obligations of \$429 billion. The Budget reflects current estimates of roughly \$471 billion in program obligations, and \$78.2 billion in programmatic costs. Differences in the estimated cost of the TARP Housing programs, which stem from divergent demand and participation rate assumptions, are the main

difference between OMB and CBO cost estimates. The CBO projects \$13 billion in total TARP Housing expenditures, while the Budget reflects a \$46 billion estimate. CBO and OMB cost estimates for the Capital Purchase Program are \$10 billion apart because of different assumptions for the remaining institutions with investments in the program. Similarly, CBO and OMB cost estimates for the Automotive Industry Financing Program are \$5 billion apart due to different assumptions for the future performance of equity investments in the program.

### Differences Between EESA and FCRA Cost Estimates

EESA directs that for asset purchases and guarantees under TARP, the cost shall be determined pursuant to the FCRA, except that the discount rate shall be adjusted for market risks. EESA's directive to adjust the FCRA discount rate for market risks effectively assumes higher losses on these transactions than those estimated under

<sup>22</sup> United States. Congressional Budget Office. Report on the Troubled Asset Relief Program – December 2011. Washington: CBO, 2011. [http://cbo.gov/ftpdocs/126xx/doc12611/12-16-TARP\\_report.pdf](http://cbo.gov/ftpdocs/126xx/doc12611/12-16-TARP_report.pdf)

**Table 4–8. COMPARISON OF OMB AND CBO TARP COSTS**  
(In billions of dollars)

Program	Risk-Adjusted Subsidy Costs	
	CBO Subsidy Cost <sup>1</sup>	OMB Subsidy Cost <sup>2</sup>
Capital Purchase Program .....	-17	-7
Targeted Investment Program .....	-8	-4
AIG Assistance .....	25	24
Automotive Industry Financing Program .....	20	25
Term Asset-Backed Securities Loan Facility .....	*	—*
Other Programs <sup>3</sup> .....	*	-5
TARP Housing Programs .....	13	46
<b>Total .....</b>	<b>34</b>	<b>78</b>

\* \$500 million or less.

<sup>1</sup> CBO estimates from December 2011, available online at: [http://www.cbo.gov/ftpdocs/126xx/doc12611/12-16-TARP\\_report.pdf](http://www.cbo.gov/ftpdocs/126xx/doc12611/12-16-TARP_report.pdf).

<sup>2</sup> Lifetime subsidy costs as reflected in the 2013 Budget, excluding interest on reestimates.

<sup>3</sup> "Other Programs" reflects an aggregate cost for PPIP (debt and equity purchases), CDCI, AGP, and small business programs.

FCRA guidelines, which require that Treasury rates be used to discount expected cashflows. In implementing this requirement of EESA, the market risk adjustment is intended to capture the cost of the extra return on investment that a private investor would seek in compensation for uncertainty surrounding risks of default and other losses reflected in the cashflows.<sup>23</sup>

Table 4–9 compares the subsidy costs and subsidy rates of TARP programs discounted at the Treasury rate adjusted for market risk (EESA), and discounted at the unadjusted Treasury rate (FCRA) using November 30th subsidy cost valuations. The largest differences between these two reflect the most uncertainty regarding the probability of losses. For example, there is greater uncertainty regarding the value of Treasury's mortgage-backed security investments in PPIP than there is compared to the valuation of Treasury's investments in CPP and TALF, and so the difference between the market-risk adjusted cost versus the non-adjusted cost (as a percent change in dollar costs) is greater for PPIP than for CPP and TALF. Removing the market risk adjustment from the discount rate for Treasury's investment in PPIP decreases its subsidy cost by 122 percent (\$2.4 billion), whereas it only decreases the CPP and TALF program by 61 percent (or \$3.0 billion) and 30 percent (or \$0.1 billion), respectively. There is a relatively small difference in the FCRA and market risk cost of AGP because there is only a negligible market risk adjustment for the outstanding \$800 million in additional Citigroup trust preferred securities that the Treasury is entitled to receive from the FDIC. For the TIP there is no difference because the TIP program has been fully repaid and its final value is known. Treasury holdings within the AIG and AIFP programs include sig-

<sup>23</sup> For example, if there were a 100 percent default expectation on a loan, and losses given default were projected at 100 percent, the market risk adjustment to the discount rate would be zero. This reflects the fact that there are no unexpected losses if losses are expected to be 100 percent of the face value of the loan.

nificant amounts of common stock, the value of which is based on the closing November 30, 2011, share price. The share price of common stock is inherently adjusted for market risk and, therefore, there is no additional market risk adjustment necessary for the EESA directive. As a result, there is no difference in the cost of AIG and AIFP between values calculated using the Treasury and risk adjusted rate. The FHA refinance program cost estimate is 53 percent (or \$4.3 billion) lower under FCRA than under EESA due to a relatively large estimated risk premium associated with risk of mortgage defaults (and TARP losses). The non-credit TARP Housing programs are reflected on a cash basis and, therefore, costs are not discounted, which is why there is no difference in the subsidy cost estimate. Using November 30, 2011, valuations, TARP investments discounted at a risk adjusted rate will cost an estimated \$78.2 billion, which suggests a net subsidy rate of 17 percent. TARP investments discounted under FCRA will cost an estimated \$67.3 billion, or a net subsidy rate of 14 percent.

## TARP OVERSIGHT AND ACCOUNTABILITY

Ensuring effective internal controls and monitoring of TARP programs and funds to protect taxpayer investments remains a top priority of TARP staff and those offices charged with TARP oversight and accountability. The Treasury has implemented a comprehensive set of assessments geared toward identifying risks, evaluating their potential impact, and prioritizing resource assignments to manage risks based on a combined top-down and bottom-up assessment of risk. The Internal Control Review organization within the Office of Financial Stability (OFS) utilizes the assessments to ensure appropriate coverage of high-impact areas. A Senior Assessment Team and the Internal Control Program Office guide OFS efforts to meet all applicable requirements for a sound system of internal controls, and to review and respond to all recom-



**Table 4–9. COMPARISON OF EESA AND FCRA TARP SUBSIDY COSTS USING 2013 BUDGET VALUATIONS**

(In billions of dollars)

Program	TARP Obligations <sup>1</sup>	Subsidy Cost	
		EESA	FCRA
<b>Equity, direct loan, and asset guarantee programs:</b>			
Capital Purchase Program .....	204.9	-6.7	-10.7
Targeted Investment Program .....	40.0	-3.6	-3.6
Asset Guarantee Program .....	5.0	-3.6	-3.7
Community Development Capital Initiative .....	0.6	0.2	0.1
Term Asset-Backed Securities Loan Facility .....	4.3	-0.4	-0.5
Small Business 7(a) Program .....	0.4	*	*
Public Private Investment Program <sup>2</sup> .....	22.4	-2.0	-4.4
AIG Investments .....	67.8	24.0	24.0
Automotive Industry Financing Program <sup>2</sup> .....	79.7	24.8	24.8
Subtotal TARP equity, direct loans, and guarantee programs.....	425.1	32.6	26.0
<b>TARP housing programs:</b>			
Making Home Affordable Programs <sup>3</sup> .....	29.9	29.9	29.9
HFA Hardest Hit Fund <sup>3</sup> .....	7.6	7.6	7.6
Subtotal non-credit programs .....	37.5	37.5	37.5
FHA Refinance Letter of Credit .....	8.1	8.1	3.8
Subtotal TARP Housing .....	45.6	45.6	41.3
<b>Total <sup>4</sup> .....</b>	<b>470.7</b>	<b>78.2</b>	<b>67.3</b>

\* \$50 million or less.

<sup>1</sup> TARP obligations reflect the cancellation of AIG's outstanding \$2 billion credit facility with Treasury and the Chrysler Group LLC termination of a remaining \$2.1 billion TARP loan commitment.<sup>2</sup> Rates for PPIP and AIFP reflect weighted average subsidy costs across various instruments.<sup>3</sup> TARP Making Home Affordable Programs and HFA Hardest Hit Fund involve financial instruments without any provision for income or other returns, and are recorded on a cash basis. The table reflects 100 percent subsidy cost for these programs.<sup>4</sup> Total subsidy costs do not include interest effects or administrative costs.

recommendations made by the four TARP oversight bodies—the Special Inspector General for TARP (SIGTARP), the Government Accountability Office (GAO), the Financial Stability Oversight Board, and the Congressional Oversight Panel (terminated April 3, 2011). The soundness of Treasury's TARP compliance monitoring, internal control, and risk management policies and processes are reflected in the clean opinions issued by GAO after its audit of TARP financial statements for 2009, 2010 and 2011 and the associated internal control over financial reporting.

The Treasury has issued regulations governing executive compensation and conflicts of interest related to TARP program administration and participation. Compliance with these rules is monitored on an ongoing basis, and reviews of participant conduct and program administration are conducted as appropriate. In executing its responsibility for monitoring compliance with executive com-

pensation requirements, the Treasury has also created an Office of the Special Master for TARP to review TARP participant compliance with applicable legal and regulatory authority, and to recommend action to the Secretary when compensation is found to be awarded in a manner or amount deemed contrary to the public interest.

### ***Special Inspector General for TARP (SIGTARP)***

Section 121 of EESA created the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) to prevent fraud, waste, and abuse in the administration of TARP programs through audits and investigations of the purchase, management, and sales of TARP assets. SIGTARP is required to submit quarterly reports to Congress, and as of its latest report released on October 27, 2011, it has initiated 28 audits, 2 evaluations, and over 150 investigations since its inception.



## 5. LONG TERM BUDGET OUTLOOK

The horizon for the detailed estimates of receipts and outlays in the President's Budget is 10 years. Accordingly, the account-level estimates in the 2013 Budget extend to 2022. This 10-year horizon reflects a balance between the importance of considering both the current and future implications of budget decisions made today and a practical limit on the construction of detailed budget projections for years in the future.

Decisions made today can have important repercussions beyond the 10-year horizon. It is important to anticipate future budgetary requirements beyond the 10-year horizon, and the effects of changes in policy on those requirements, despite the uncertainty surrounding the assumptions needed for such estimates. Long-run budget projections can be useful in drawing attention to potential problems that could become unmanageable if allowed to grow.

To this end, the budget projections in this chapter extend the 2013 Budget for 75 years through 2087. Because of the uncertainties involved in making long-run projections, results are presented for a base case and for several alternative scenarios.

The passage of the Affordable Care Act (ACA) in 2010 had a profound effect on these projections. The cost-reduction mechanisms in the ACA significantly reduce projected budget deficits in the long run. In 2011, following weeks of negotiation with the Administration, Congress passed the Budget Control Act of 2011 (BCA). The BCA reduces long-run budget deficits by constraining spending over the next 10 years, and the 2013 Budget includes other initiatives that would help control future deficits if enacted. Nonetheless, the Administration recognizes that there is considerable uncertainty in its long-term projections and that future challenges will require policy responses that have yet to be formulated. The projections in this chapter reflect the fact that, until these reforms are enacted, simply extending current laws and policies leaves the country with a large and growing publicly held debt. Reforms are needed to make sure that overall budgetary resources are sufficient to support future spending and that programs like Medicare Part A and Social Security, which are expected to be financed from dedicated revenue sources, remain self-sustaining. The Administration intends to work with the Congress to develop additional policies that will assure fiscal sustainability in the future.

When the current Administration took office, the budget deficit was rising sharply because of the declining economy and measures taken to revive it. Revenues had fallen, as a share of GDP, to their lowest level since 1950. Spending on programs like unemployment insurance had also risen sharply. The measures taken by the Administration to revive economic growth will also help

to increase revenues, and, over the next ten years, the revenue shortfall is projected to be made up. By 2022, revenues as a share of GDP are projected to be above their historical average over the last 40 years. Meanwhile, measures like the ACA and the BCA along with the proposals in this Budget will constrain future spending and help narrow the deficit. By the end of the period, the primary budget is balanced and the debt-to-GDP ratio will have been stabilized. Beyond the 10-year horizon, however, demographic pressures and continued high costs for health care are likely to begin gradually pushing up the deficit and the ratio of debt to GDP.

The key drivers of the long-range deficit are the Government's major health and retirement programs: Medicare, Medicaid and Social Security. Revenues rise somewhat relative to GDP, but not enough to keep pace with the increase in health and retirement program spending.

- Medicare finances health insurance for most of the Nation's seniors and many individuals with disabilities. Medicare's growth has generally exceeded that of other Federal spending for decades, tracking the rapid growth in overall health care costs. The ACA will curtail this cost growth, but Medicare spending is still projected to reach higher levels relative to the economy and the budget than those that prevail today.
- Medicaid provides medical assistance, including acute and long-term care, to low-income children and families, seniors, and people with disabilities. Medicaid's growth has also generally exceeded that of other Federal spending, and like Medicare it has generally tracked the growth in overall health costs. Medicaid assistance will expand further beginning in 2014 because of broadened coverage provided by the ACA. Medicaid's finances are also expected to benefit from the ACA's reforms.
- Social Security provides retirement benefits, disability benefits, and survivors' insurance for the Nation's workers. Outlays for Social Security benefits will begin to exceed the program's dedicated income in a little more than a decade putting pressure on the overall budget as trust fund balances are drawn down.

Long-range projections for Social Security and Medicare have been prepared for decades, and the actuaries at the Centers for Medicare and Medicaid Services have indicated that they intend to begin producing such projections for Medicaid. This is useful information, but it does not indicate the Government's overall budgetary po-



sition, which is the reason the projections in this chapter offer a useful complement to the long-run projections for the individual programs.

Future budget outcomes depend on a host of unknowns—changing economic conditions, unforeseen international developments, unexpected demographic shifts, the unpredictable forces of technological advance, and evolving political preferences to name a few. These uncertainties make even short-run budget forecasting quite difficult, and the uncertainties increase the further into the future projections are extended. While uncertainty makes forecast accuracy difficult to achieve, it does not detract from the importance of long-run budget projections, because future problems are often best addressed in the present. A full treatment of all the relevant risks is beyond the scope of this chapter, but the chapter does show how sensitive long-run budget projections are to changes in some of key economic and demographic assumptions.

### The Long-Run Fiscal Challenge

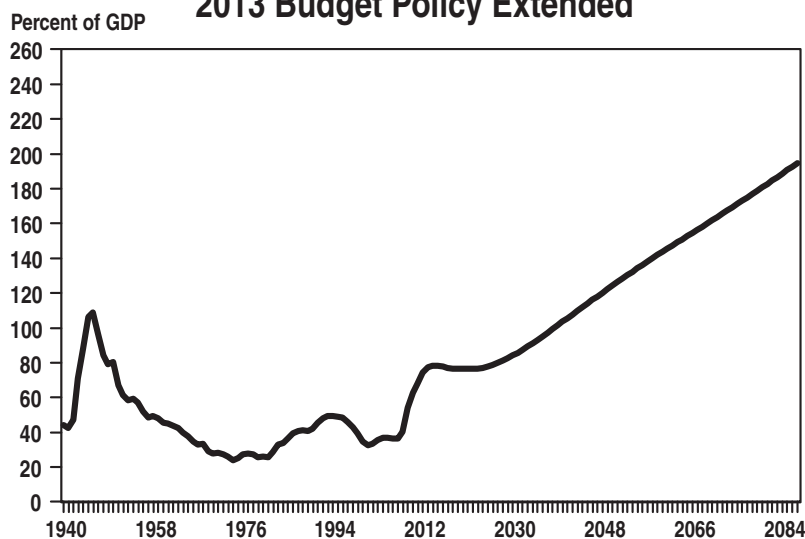
The 2013 Budget includes \$3 trillion in net deficit reduction over the next 10 years. Combined with the approximately \$1 trillion in savings from the provisions in Title I of the BCA, this would generate more than \$4 trillion in deficit reduction over the next decade. These savings would bring the Nation to the point where current spending is no longer adding to debt and where debt is no longer increasing as a share of the economy—an important milestone on the way to restoring fiscal discipline and moving the budget toward balance. By the end of the 10-year budget window, the policies in this Budget stabilize the deficit at less than 3 percent of GDP. Beyond 2022, however, the fiscal position gradually deteriorates mainly because of the aging of the population and the high continuing cost of the Government's health programs. By 2030, the deficit is projected to be 4.5 percent of GDP, and by 2040 it is nearly 6 percent. The deficit continues to rise for the next 75 years, and the publicly-held debt is also projected to rise persistently relative to GDP (see Chart 5-1).

Health care costs have risen faster than inflation for decades. This rising cost trend has contributed to steady increases in the amounts spent on Medicare and Medicaid, while also making it more difficult for people to afford private health insurance. The ACA tackles both problems by extending health insurance coverage to millions of Americans who currently lack insurance, while making reforms that will slow future growth in medical costs. When the law is fully implemented, Medicare spending per beneficiary would rise at rates substantially below those at which spending has grown for four decades. Even with these changes, however, health care costs are likely to continue to rise faster than inflation as the population ages, posing a danger to long-run budget stability.

Population aging also poses a serious long-run budgetary challenge. Because of lower expected fertility and improved longevity, the Social Security actuaries project that under current law in which the normal retirement age rises to 67, the ratio of workers to Social Security beneficiaries will fall from around 2.9 currently to a little over 2 by the time most of the baby boomers have retired. From that point forward, the ratio of workers to beneficiaries is expected to continue to decline slowly. With fewer workers to pay the taxes needed to support the retired population, budgetary pressures will steadily mount and without reforms, trust fund exhaustion is projected by the Social Security Trustees to occur in 2036. The country also faces the challenge of reforming the tax code to make it fairer and simpler and to provide sufficient revenue to meet long-run commitments. Resolving the long-run fiscal challenge will require a comprehensive approach, one that restrains spending growth but also addresses the sufficiency of the tax code. The 2013 Budget includes several proposed changes to the tax code that would close loopholes and eliminate tax breaks for special interests. It also calls on Congress to undertake comprehensive tax reform to both lower tax rates and generate new revenues.

**Long-Run Budget Projections.**—In 2011, the three major entitlement programs — Medicare, Medicaid, and Social Security — accounted for 44 percent of non-interest

**Chart 5-1. Publicly Held Debt Under 2013 Budget Policy Extended**



**Table 5-1. LONG-RUN BUDGET PROJECTIONS**  
(Receipts, Outlays, Surplus or Deficit, and Debt as a Percent of GDP)

	1980	1990	2000	2010	2020	2030	2040	2050	2060	2070	2080	2085
Receipts .....	19.0	18.0	20.6	15.1	19.7	20.0	20.2	20.3	20.5	20.7	20.8	20.9
Outlays:												
Discretionary .....	10.1	8.7	6.3	9.1	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Mandatory:												
Social Security .....	4.3	4.3	4.1	4.9	5.2	5.8	5.8	5.7	5.6	5.7	5.8	5.8
Medicare .....	1.1	1.7	2.0	3.1	3.3	4.3	4.8	5.0	5.0	5.1	5.1	5.1
Medicaid .....	0.5	0.7	1.2	1.9	2.2	2.5	2.8	3.0	2.9	2.9	2.9	2.8
Other .....	3.7	3.2	2.4	3.7	3.4	3.1	2.9	2.8	2.7	2.6	2.6	2.6
Subtotal, mandatory .....	9.6	9.9	9.7	13.6	14.0	15.8	16.4	16.4	16.3	16.3	16.3	16.3
Net interest .....	1.9	3.2	2.3	1.4	3.2	3.8	4.6	5.6	6.5	7.3	8.1	8.6
Total outlays .....	21.7	21.9	18.2	24.1	22.5	24.5	26.0	27.0	27.7	28.6	29.4	29.9
Surplus or deficit (-) .....	-2.7	-3.9	2.4	-9.0	-2.8	-4.5	-5.8	-6.6	-7.2	-7.9	-8.6	-9.0
Primary surplus/deficit(-) .....	-0.8	-0.6	4.7	-7.6	0.4	-0.7	-1.2	-1.1	-0.7	-0.6	-0.5	-0.4
Federal debt held by the public, end of period .....	26.1	42.1	34.7	62.8	76.5	84.2	103.5	124.4	143.7	161.8	180.8	190.6

Note: The figures shown in this table beyond 2020 are the product of a long-range forecasting model maintained by the Office of Management and Budget. This model is separate from the models and capabilities that produce detailed programmatic estimates in the Budget. It was designed to produce long-range projections based on additional assumptions regarding growth in the economy, the long-range evolution of specific programs, and the demographic and economic forces affecting those programs. The model, its assumptions, and sensitivity testing of those assumptions are presented in this chapter.

Federal spending, up from 30 percent in 1980. By 2035, when the surviving baby boomers will all be 70 or older, these three programs could account for more than 60 percent of non-interest Federal spending. Through the end of the projection period, in 2087, this figure would continue to rise gradually. In other words without further reforms, more than three-fifths of the budget, aside from interest, would go to these three programs alone. That would severely reduce the flexibility of the budget, and the Government's ability to respond to new challenges.

Because of these pressures, further cost-reducing measures or additional revenues are needed to stabilize the budget outlook in the long run. The budget projections shown in Table 5-1 illustrate that point. The policies in the 2013 Budget, would stabilize the budget outlook over the next 10 years by generating \$3 trillion in additional deficit reduction. However, after stabilizing the debt-to-GDP ratio over that time period, the deficit and the debt-to-GDP ratio begin to rise again in the period after 2022, with the debt-to-GDP ratio eventually far exceeding its previous peak level reached at the end of World War II. The policies in the 2013 Budget will allow more time to develop long-term policies to address the persistently-rising debt.

**Medicare and Medicaid.**— In the long-run projections in this chapter, different assumptions about the growth rate of health care costs are made. In the base case, a continuation of current policy assumes that the provisions of the ACA are fully implemented, limiting health care costs in the long run compared with prior law. The long-run Medicare assumptions for the years following the 10-year budget window are essentially the same as those in the latest Medicare Trustees' report (May 2011), which is consistent with how these long-term budget projections have generally been made in the past. The Trustees' projections imply that average long-range annual growth in Medicare spending per enrollee is 0.2 percentage points per year faster than the projected growth rate in GDP per capita. This growth rate for Medicare is significantly smaller than

previous projections prior to the passage of the ACA—a reduction the Trustees largely attribute to the ACA.

Along with the rules for Medicare, there are a number of reforms in the ACA that experts believe could produce significant savings relative to the historical trend and that would affect medical costs more broadly. One is an excise tax on the highest-cost insurance plans, which will encourage substitution of plans with lower costs, while raising take-home pay. There is also an array of delivery system reforms, including incentives for accountable care organizations and payment reform demonstrations that have the potential to re-orient the medical system toward providing higher quality care, not just more care, and thus reduce cost growth in the future.<sup>1</sup> Finally, the ACA established an independent payment advisory board that will be empowered to propose changes in Medicare should Medicare costs exceed the growth rate specified in law. The proposed changes in Medicare would take effect automatically, unless overridden by the Congress. Because of these broader reforms, Medicaid spending per beneficiary and private health spending per capita are also projected to slow, though not as much as Medicare.<sup>2</sup>

An alternative discussed below assumes that medical costs rise more rapidly than in the base case. This could happen, for example, if future Congresses and Administrations weaken the budgetary discipline embodied in current law. The alternative assumes that costs per beneficiary rise at two percentage points per year above GDP per capita which would continue the historical experience of the last 50 years.

<sup>1</sup> Groups of providers meeting certain criteria can be recognized as accountable care organizations (ACOs), which allow them to coordinate care and manage chronic disease more easily thereby improving the quality of care for patients. ACOs can then share in any cost savings they achieve for Medicare if they meet quality standards.

<sup>2</sup> The projections assume that growth in Medicaid spending per enrollee and private health spending per capita exceeds growth in GDP per capita by 0.6 percentage points.

**Revenues.**—Projected revenues in these long-run budget projections start with the estimated receipts under the Administration’s proposals in the 2013 Budget. There is some built-in momentum in the tax code that tends to push up average tax rates over time when real incomes are rising, as assumed in these projections. For example, the tax code is indexed for inflation, but not for increases in real income, so there is a tendency for individual income taxes to increase relative to incomes when real taxable incomes are rising, everything else equal. Historically, Congress has acted to forestall this tendency by periodically lowering tax rates. Beyond the 10-year budget window, the projections in this chapter assume that individual income tax rates will not rise automatically with real wage growth. The projections also assume that the Alternative Minimum Tax (AMT) will not be allowed to expand as it would under current law. In recent years, Congress and the Administration have always acted to curtail the spread of the AMT preventing the increase in revenues from that source implied by current law. While these assumptions tend to limit tax revenue, other assumptions work in the opposite direction. For example, the projections assume that the new revenue provisions in the ACA go into effect including the excise tax on high-premium health plans. On balance, the assumptions produce a gradual increase in the overall share of revenues relative to GDP rising to nearly 21 percent by the end of the long-run projection period. Despite the increase, projected revenues are insufficient to meet the Federal Government’s projected future commitments as shown by the growing deficits in Table 5-1.

**Discretionary Outlays.**—Because discretionary spending is determined annually through the legislative process, there is no straightforward assumption for projecting its future path. The budget displays a path for discretionary spending over the next 10 years; beyond that time frame, however, there are several different plausible assumptions for the future path. One is to assume that discretionary spending will be held constant in inflation-adjusted terms, which would allow discretionary programs to increase with prices, but would not allow the programs to expand with population or real growth in the economy. Extending this assumption over many decades is not realistic, when the population and economy are projected to grow, as assumed in these projections. Therefore, the base projection assumes that discretionary spending keeps pace with the growth in GDP in the long run. The chapter also uses alternative assumptions for discretionary spending to show other possible paths. It is important to note that these paths are merely illustrative; they are not intended to represent the policy preferences of this Administration or future Administrations.

Table 5-1 shows how the budget would evolve without further changes in policy under the base assumptions described above. The key assumptions are the full implementation of the ACA with its various provisions to control costs and alter incentives for medical practice, the BCA which limits discretionary spending over the next ten years, and the adoption of the proposals in this Budget to control the deficit and reform taxes. Under these as-

sumptions, the future growth of Medicare and Medicaid is projected to slow sharply relative to GDP, and future discretionary spending is much lower relative to GDP than has been true in recent decades. Social Security benefits rise relative to the economy over the next 20 years, but increase more slowly after that as the age composition of the population begins to stabilize. Other mandatory programs generally decline relative to the size of the economy. These include Federal pension benefits for Government workers. The shift in the 1980s from the Civil Service Retirement System (CSRS) to the Federal Employees Retirement System (FERS) is having a marked effect on Federal civilian pensions, which is expected to continue as FERS comes to dominate future pension projections. The defined benefit pension plan in FERS is much smaller than the traditional Federal pension benefit under CSRS. On the revenue side, once tax revenues recover from the economic downturn, revenues gradually grow but by less than future spending. With total outlays increasing more rapidly than taxes, the deficit rises, and publicly held debt exceeds historical levels.

The ACA addresses the single most important long-run challenge to the Nation’s fiscal future, which is rising health care costs. Even with this fundamental change, however, an aging population and a continued high level of health costs will pose serious long-term budget problems. Under current policies, Medicare, Medicaid, and Social Security are projected to absorb a much larger share of Federal resources than in the past, limiting what the Government can do in other areas. The ratio of debt to GDP, which is stabilized within the 10-year budget window, is projected to resume its growth in the long run without further policy changes.

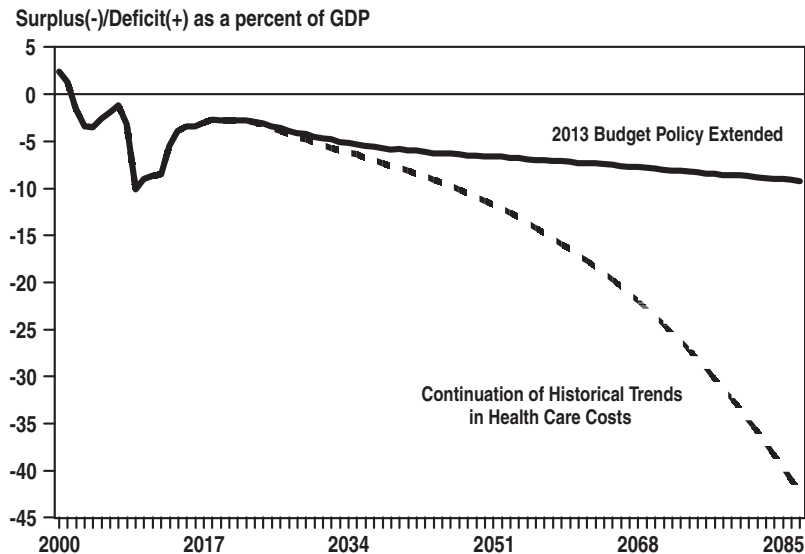
### Alternative Policy, Economic, and Technical Assumptions

The quantitative results discussed above are sensitive to changes in underlying policy, economic, and technical assumptions. Some of the most important of these assumptions and their effects on the budget outlook are discussed below. For most plausible alternative projections of long-run trends, the deficit and debt rise even more than in the base projections discussed above.

**Health Spending.**—The base projections for Medicare and Medicaid over the next 75 years assume an extension of current law. Chart 5-2 shows budget outcomes under these base assumptions and an alternative scenario. The alternative assumes spending per beneficiary grows 2 percentage points faster than GDP per capita, similar to the historical growth rate of medical costs in the United States since 1960.

**Discretionary Spending.**—The current base projection for discretionary spending assumes that after 2022, discretionary spending keeps pace with the growth in GDP (see Chart 5-3). An alternative assumption would be to allow discretionary spending to increase for inflation and population growth only. In this case, discretionary spending would remain constant in inflation-adjusted per capita terms. Yet another possible assumption is to al-

### Chart 5-2. Alternative Health Care Costs



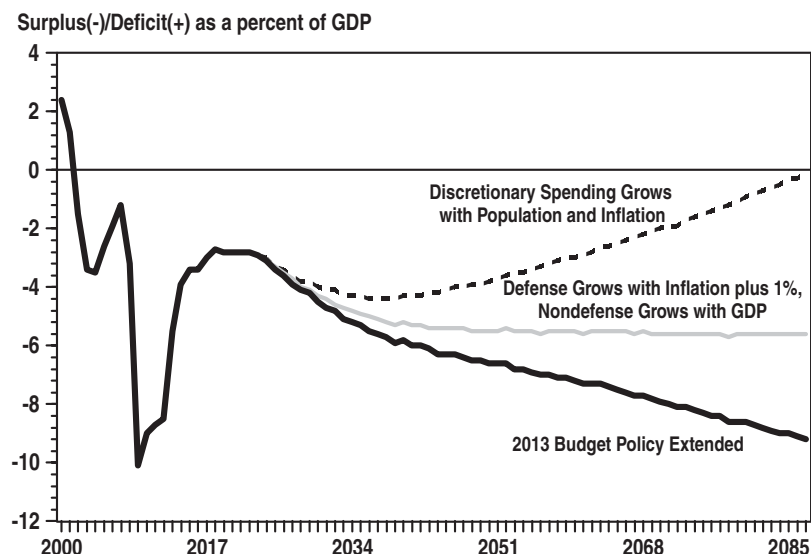
low nondefense discretionary spending to grow with GDP while defense spending is adjusted only for inflation plus one percent real growth per year. This latter combination is somewhat closer to historical experience over the last 60 years.

**Alternative Revenue Projections.**—In the base projection, tax receipts rise gradually relative to GDP. Chart 5-4 shows alternative receipts assumptions. Allowing receipts to rise by an additional 2 percentage points of GDP relative to the base projections would stabilize the long-run budget deficit. Reducing taxes by 2 percentage points of GDP relative to the base projections would bring the projected rise in the deficit and the publicly-held debt forward in time.

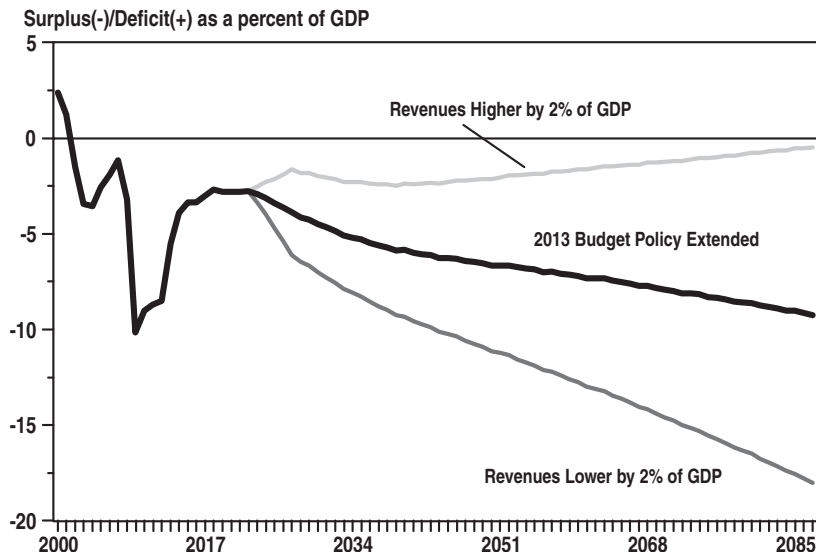
**Productivity.**—The rate of future productivity growth has a major effect on the long-run budget outlook (see

Chart 5-5). It is also highly uncertain. Over the next few decades, an increase in productivity growth would reduce projected budget deficits. Higher productivity growth adds directly to the growth of the major tax bases, while it has a smaller immediate effect on outlay growth even assuming that discretionary spending rises with GDP. For much of the last century, output per hour in nonfarm business grew at an average rate of around 2.2 percent per year. Growth was not always steady. In the 25 years following 1948, labor productivity in the nonfarm business sector of the economy grew at an average rate of 2.7 percent per year, but this was followed by a period of much slower growth. From 1973 to 1995, output per hour in non-farm business grew at an average annual rate of just 1.5 percent per year. In the latter half of the 1990s, however, the rate of productivity growth increased again

### Chart 5-3. Alternative Discretionary Projections



### Chart 5-4. Alternative Revenue Projections



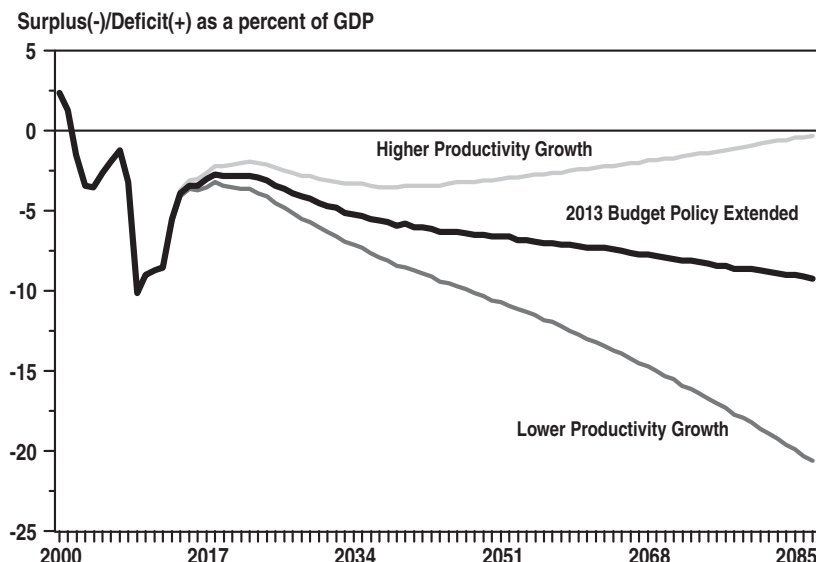
and it has remained higher albeit with some fluctuations since then. Indeed, the average growth rate of productivity in nonfarm business has averaged 2.5 percent per year since the fourth quarter of 1995.

The base projections assume that output per hour in nonfarm business will increase at an average annual rate of around 2.3 percent per year, close to its long-run average and slightly below its average growth rate since 1995. This implies that real GDP per hour worked will grow at an average annual rate of 1.9 percent per year. The difference is accounted for by the fact that the sectors of the economy that are counted in GDP outside of the nonfarm business sector tend to have lower productivity growth than nonfarm business does. The alternatives highlight the effect of raising and lowering the projected productivity growth rate by 1/4 percentage point.

**Population.**—The key assumptions for projecting long-run demographic developments are fertility, immigration, and mortality.

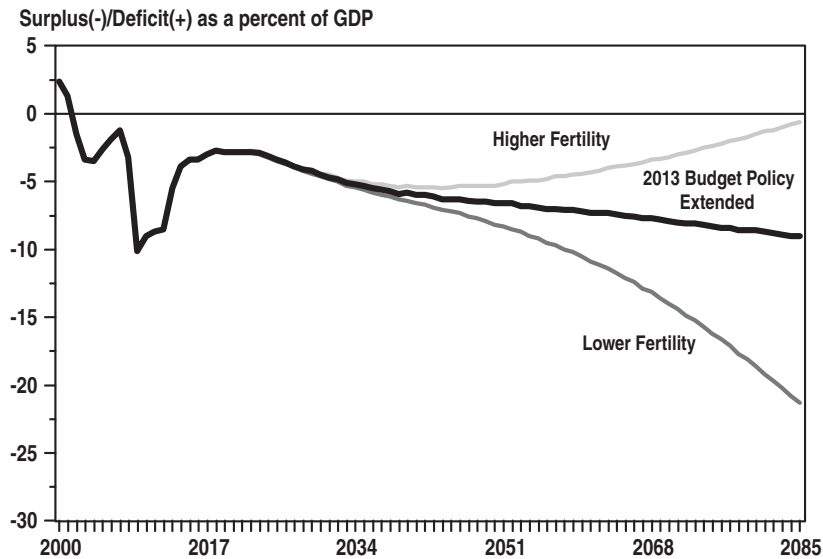
- The demographic projections assume that fertility will average about 2.0 total lifetime births per woman in the future, just slightly below the replacement rate needed to maintain a constant population in the absence of immigration—2.1 births per woman (see Chart 5-6). The alternatives are those in the latest Social Security trustees' report (1.7 and 2.3 births per woman).
- The rate of immigration is assumed to average around 1 million immigrants per year in the long run (see Chart 5-7). Higher immigration relieves some of the downward pressure on population growth from low fertility and allows total population to expand throughout the projection period, although at

### Chart 5-5. Alternative Productivity Assumptions





**Chart 5-6. Alternative Fertility Assumptions**



a much slower rate than has prevailed historically. The alternatives are taken from the Social Security Trustees' Report (1.3 million total immigrants per year in the high alternative and 0.8 million in the low alternative).

- Mortality is projected to decline as people live longer in the future (see Chart 5-8). These assumptions parallel those in the latest Social Security Trustees' Report. The average life expectancy at birth for women is projected to rise from 80.5 years in 2010 to 86.7 years in 2085, and the average for men is expected to increase from 75.8 years in 2010 to 83.3 years in 2085. A technical panel advising the Social Security trustees has reported that the improvement in longevity might be even greater than assumed here. The variations show the high and low alternatives from the latest Trustees' report (average female and

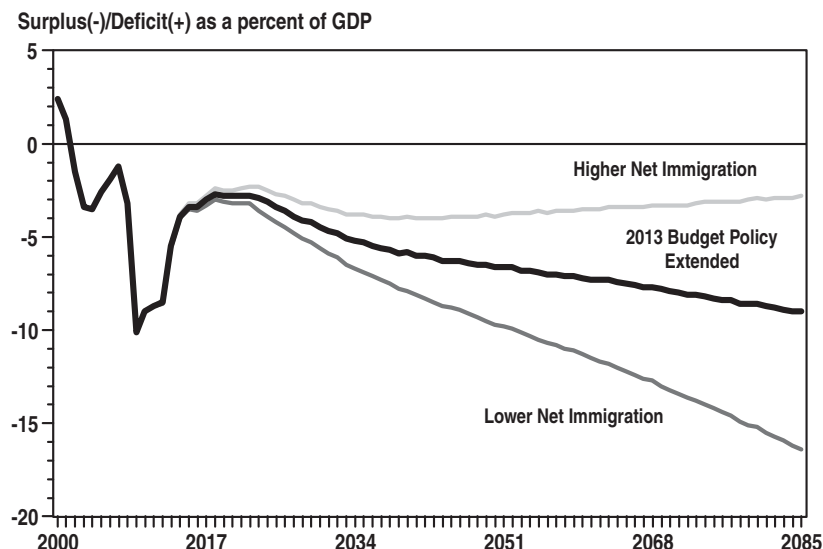
male life expectancy reaching 83.2 and 79.4 in the low cost alternative and 90.3 and 87.6 in the high cost alternative).

The long-run budget outlook is highly uncertain. With pessimistic assumptions, the fiscal picture deteriorates much more than in the base projection. More optimistic assumptions imply a smaller rise in the deficit and the debt. But despite the uncertainty, these projections show under a wide range of forecasting assumptions that overall budgetary resources will be strained in future decades. These projections highlight the need for policy action to address the main drivers of future budgetary costs.

**The Fiscal Gap**

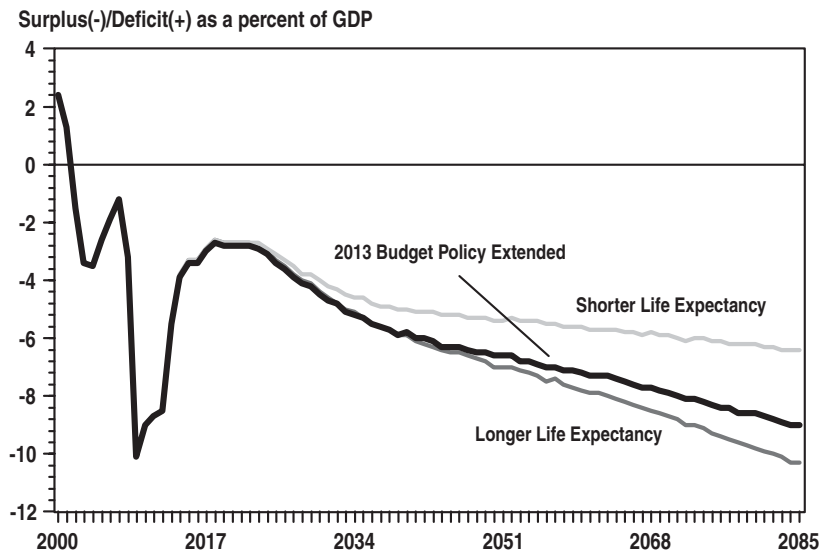
The fiscal gap is one measure of the size of the adjustment needed to preserve fiscal sustainability in the long

**Chart 5-7. Alternative Immigration Assumptions**





**Chart 5-8. Alternative Mortality Assumptions**



run.<sup>3</sup> It is defined as the increase in taxes or reduction in non-interest expenditures required to keep the long-run ratio of Government debt-to-GDP at its current level if implemented immediately. The gap is usually measured as a percentage of GDP. The fiscal gap is calculated over a finite time period, and therefore it may understate the adjustment needed to achieve permanent sustainability.

Table 5-2 shows fiscal gap calculations for the base case calculated over a 75-year horizon and for the various

alternative scenarios described above. The fiscal gap in the base case is 1.3 percent of GDP, and it ranges in the alternative scenarios from -0.3 percent of GDP to 5.3 percent of GDP. This suggests that additional reforms are needed to be sure the budget is on a permanently sustainable course in the long run.

**Actuarial Projections for Social Security and Medicare**

The Trustees for the Medicare Federal Hospital Insurance (HI) and Social Security trust funds issue annual reports that include projections of income and outgo for these funds over a 75-year period. These projections are based on different methods and assumptions than the long-run budget projections presented above. Even with these differences, the message is similar: the ACA is projected to curtail the projected growth in per capita health care costs but even with this reform, the retirement of the baby-boom generation and continuing high medical costs will eventually exhaust the trust funds unless further action is taken.

The Trustees’ reports feature the actuarial balance of the trust funds as a summary measure of their financial status. For each trust fund, the balance is calculated as the change in receipts or program benefits (expressed as a percentage of taxable payroll) that would be needed to preserve a small positive balance in the trust fund at the end of a specified time period. The estimates cover periods ranging in length from 25 to 75 years. These balance calculations show what it would take to achieve a positive trust fund balance at the end of a specified period of time, not what it would take to maintain a positive balance indefinitely. To maintain a positive balance forever requires a larger adjustment than is needed to maintain a positive balance over 75 years when the annual balance in the program is negative at the end of the 75-year projection period, as it is expected to be for Social Security and Medicare without future reforms.

<sup>3</sup> Alan J. Auerbach, “The U.S. Fiscal Problem: Where We Are, How We Got Here, and Where We’re Going,” NBER: Macroeconomics Annual 1994, pp 141 – 175.

**Table 5-2. 75-YEAR FISCAL GAP UNDER ALTERNATIVE BUDGET SCENARIOS**  
(Percent of GDP)

Base Case .....	1.3
Health:	
Excess cost growth averages 2 percent. ....	5.3
Discretionary Outlays:	
Grow with inflation plus population .....	-0.1
Defense grows with inflation 1%; nondefense grows with GDP .....	0.8
Revenues:	
Revenues exceed base case by 2 percent of GDP .....	-0.3
Revenues fall short of base case by 2 percent of GDP .....	2.9
Productivity:	
Productivity grows by 0.5 percent per year faster than the base case .....	-0.2
Productivity grows by 0.5 percent per year slower than the base case .....	3.0
Population:	
Fertility:	
2.3 births per woman .....	-0.1
1.7 births per woman .....	2.8
Immigration:	
1.3 million immigrants per year .....	0.1
0.8 million immigrants per year .....	2.6
Mortality in 2085:	
Female life expectancy 83.2; male life expectancy 79.4 .....	1.5
Female life expectancy 90.3; male life expectancy 87.6 .....	1.9

Table 5-3. INTERMEDIATE ACTUARIAL PROJECTIONS FOR OASDI AND HI

	2010	2020	2030	2050	2080
	Percent of Payroll				
<b>Medicare Hospital Insurance (HI)</b>					
Income Rate					
2009 Trustees' Report .....	3.2	3.3	3.4	3.4	3.5
2010 Trustees' Report .....	3.2	3.4	3.6	3.9	4.3
2011 Trustees' Report .....	3.2	3.5	3.6	3.9	4.3
Cost Rate					
2009 Trustees' Report .....	3.6	4.4	6.0	8.7	11.8
2010 Trustees' Report .....	3.7	3.5	4.3	5.0	4.9
2011 Trustees' Report .....	3.8	3.6	4.4	5.1	5.0
Annual Balance					
2009 Trustees' Report .....	-0.4	-1.1	-2.6	-5.3	-8.3
2010 Trustees' Report .....	-0.5	-0.0	-0.7	-1.1	-0.7
2011 Trustees' Report .....	-0.6	-0.2	-0.8	-1.2	-0.7
Projection Interval: .....			25 years	50 years	75 years
Actuarial Balance: 2009 Trustees' Report .....			-1.4	-2.8	-3.9
Actuarial Balance: 2010 Trustees' Report .....			-0.3	-0.6	-0.7
Actuarial Balance: 2011 Trustees' Report .....			-0.5	-0.8	-0.8
	Percent of Payroll				
<b>Old Age Survivors and Disability Insurance (OASDI)</b>					
Income Rate					
2009 Trustees' Report .....	12.9	13.0	13.2	13.3	13.3
2010 Trustees' Report .....	12.3	13.1	13.2	13.2	13.3
2011 Trustees' Report .....	12.5	13.1	13.2	13.2	13.3
Cost Rate					
2009 Trustees' Report .....	12.5	14.5	16.8	16.6	17.5
2010 Trustees' Report .....	13.1	14.2	16.4	16.3	17.3
2011 Trustees' Report .....	13.4	14.2	16.7	16.7	17.4
Annual Balance					
2009 Trustees' Report .....	0.4	-1.5	-3.6	-3.4	-4.2
2010 Trustees' Report .....	-0.8	-1.1	-3.2	-3.1	-4.0
2011 Trustees' Report .....	-0.9	-1.1	-3.4	-3.4	-4.1
Projection Interval: .....			25 years	50 years	75 years
Actuarial Balance: 2009 Trustees' Report .....			-0.2	-1.5	-2.0
Actuarial Balance: 2010 Trustees' Report .....			-0.3	-1.5	-1.9
Actuarial Balance: 2011 Trustees' Report .....			-0.6	-1.8	-2.2

Table 5-3 shows the projected income rate, cost rate, and annual balance for the Medicare HI and combined OASDI Trust Funds at selected dates under the Trustees' intermediate assumptions. Data from the 2009 and the 2010 reports are shown along with the latest data from the 2011 reports. The large improvement in the HI Trust Fund balance between 2009 and 2010 can be seen in Table 5-3. This is the result of the passage of the ACA. Even with the ACA there is still a long-run deficit in the HI program, albeit one that is much smaller than projected in 2009 and earlier. These projections assume full implementation of the cost reductions under current law, over the entire long-run projection period. In the 2009 Trustees' report, Medicare HI trust fund costs as a percentage of Medicare covered payroll were projected to rise from 3.6 percent to 11.8 percent between 2010 and 2080

and the HI trust fund imbalance was projected to be -8.3 percent in 2080. In the 2010 report, costs rise from 3.7 percent of Medicare taxable payroll in 2010 to 4.9 percent in 2080 and the imbalance in the HI trust fund in 2080 is -0.7 percent. On average, the HI cost rate has increased slightly in the 2011 report compared with 2010, although the final value of the HI cost rate is slightly lower in the 2011 report than it was in 2010. The large improvement in the trust fund imbalance projected in 2010 is largely unchanged in 2011. Demographic trends and continued high per-person costs combine to explain the continued imbalance in the long-run projections.

**Medicare Funding Warning.** Under the Medicare Modernization Act (MMA) of 2003, the Medicare Trustees must issue a "warning" when in two consecutive Trustees' reports they project that the share of Medicare funded by

general revenues will exceed 45 percent in the current year or any of the subsequent six years. Such a warning was included in the 2011 Trustees Report. The MMA requires that the President submit legislation, within 15 days of submitting the Budget, which will reduce general revenue funding to 45 percent of overall Medicare outlays or lower in the immediate seven-fiscal-year window. In accordance with the Recommendations Clause of the Constitution, and as the Executive Branch has noted in prior years, the Executive Branch considers this requirement to be advisory and not binding. However, the proposals in this Budget would further strengthen Medicare's finances and extend its solvency.

As a result of reforms legislated in 1983, Social Security had been running a cash surplus with taxes exceeding costs up until 2009. This surplus in the Social Security trust fund helped to hold down the unified budget deficit. The cash surplus ended in 2009. The 2011 Social Security trustees report projects that on a cash-flow basis the trust fund will not return to surplus without further reforms. Consequently, Social Security will no longer act to hold down the unified budget deficit. Even so, the program will continue to experience a surplus for some years because of the Trust Funds' interest earnings. Eventually, however, Social Security will begin to draw on its trust

fund balances to cover current expenditures. Over time, as the ratio of workers to retirees falls, costs are projected to rise further from 13.4 percent of Social Security covered payroll in 2010 to 14.2 percent of payroll in 2020, 16.7 percent of payroll in 2030 and 17.4 percent of payroll in 2080. Revenues excluding interest are projected to rise only slightly from 12.5 percent of payroll today to 13.3 percent in 2080. Thus the annual balance is projected to decline from -0.9 percent of payroll in 2010 to -1.1 percent of payroll in 2020, -3.4 percent of payroll in 2030, and -4.1 percent of payroll in 2080. On a 75-year basis, the actuarial deficit is projected to be -2.2 percent of payroll. In the process, the Social Security trust fund, which was built up since 1983, would be drawn down and eventually be exhausted in 2036. These projections assume that benefits would continue to be paid in full despite the projected exhaustion of the trust fund to show the long-run implications of current benefit formulas. Under current law, not all scheduled benefits would be paid after the trust funds are exhausted. Some benefits, however, could still be partially funded from current revenues. The 2011 Trustees' report presents projections on this point. Beginning in 2036, 77 percent of projected Social Security scheduled benefits would be funded. This percentage would eventually decline to 74 percent by 2085.

#### TECHNICAL NOTE: SOURCES OF DATA AND METHODS OF ESTIMATING

The long-range budget projections are based on demographic and economic assumptions. A simplified model of the Federal budget, developed at OMB, is used to compute the budgetary implications of these assumptions.

**Demographic and Economic Assumptions.**—For the years 2012-2022, the assumptions are drawn from the Administration's economic projections used for the 2013 Budget. These budget assumptions reflect the President's policy proposals. The economic assumptions are extended beyond this interval by holding inflation, interest rates, and the unemployment rate constant at the levels assumed in the final year of the budget forecast. Population growth and labor force growth are extended using the intermediate assumptions from the 2011 Social Security Trustees' report. The projected rate of growth for real GDP is built up from the labor force assumptions and an assumed rate of productivity growth. Productivity growth, measured as real GDP per hour, is assumed to equal its average rate of growth in the Budget's economic assumptions—1.9 percent per year.

CPI inflation holds stable at 2.1 percent per year, the unemployment rate is constant at 5.4 percent, the yield on 10-year Treasury notes is steady at 5.3 percent, and the 91-day Treasury bill rate is 4.1 percent. Consistent with the demographic assumptions in the Trustees' reports, U.S. population growth slows from around 1 percent per year to about two-thirds that rate by 2030, and slower rates of growth beyond that point. By the end of the projection period total population growth is as low as 0.4 percent per year. Real GDP growth is projected to

be less than its historical average of around 3.2 percent per year because the slowdown in population growth and the increase in the population over age 65 reduce labor supply growth. In these projections, average real GDP growth averages between 2.3 percent and 2.4 percent per year for the period following the end of the 10-year budget window in 2022.

The economic and demographic projections described above are set by assumption and do not automatically change in response to changes in the budget outlook. This is unrealistic, but it simplifies comparisons of alternative policies.

**Budget Projections.**—For the period through 2022, receipts follow the 2013 Budget's policy projections. After 2022, total tax receipts rise gradually relative to GDP. Discretionary spending follows the path in the Budget over the next 10 years and grows at the rate of growth in nominal GDP afterwards. Other spending also aligns with the Budget through the budget horizon. Long-run Social Security spending is projected by the Social Security actuaries using this chapter's long-range economic and demographic assumptions. Medicare benefits are projected based on a projection of beneficiary growth and excess health care cost growth from the 2011 Medicare Trustees' report, and the general inflation assumptions described above. Medicaid outlays are based on the economic and demographic projections in the model. Other entitlement programs are projected based on rules of thumb linking program spending to elements of the economic and demographic projections such as the poverty rate.

## 6. FEDERAL BORROWING AND DEBT

Debt is the largest legally and contractually binding obligation of the Federal Government. At the end of 2011, the Government owed \$10,128 billion of principal to the individuals and institutions who had loaned it the money to fund past deficits. During that year, the Government paid the public approximately \$266 billion of interest on this debt. At the same time, the Government also held financial assets, net of other liabilities, of \$958 billion. Therefore, debt net of financial assets was \$9,170 billion, or 61.3 percent of GDP.

The \$10,128 billion debt held by the public at the end of 2011 represents an increase of \$1,109 billion, or 4.9 percent of GDP, over the level at the end of 2010. In 2011, the \$1,300 billion deficit, partially offset by \$190 billion of other financing transactions,<sup>1</sup> caused the Government to increase its borrowing from the public by \$1,109 billion. Debt held by the public increased from 62.8 percent of Gross Domestic Product (GDP) at the end of 2010 to 67.7 percent of GDP at the end of 2011. Meanwhile, assets net of liabilities fell by \$167 billion in 2011, as activities undertaken in previous years to help stabilize credit markets (particularly temporary increases to the Treasury operating cash balance) began to wind down. Debt held by the public net of financial assets increased from 55.0 percent of GDP at the end of 2010 to 61.3 percent of GDP at the end of 2011. The deficit is estimated to increase to \$1,327 billion in 2012, and then begin to fall. Declining deficits and continued GDP growth are estimated to significantly reduce growth in debt as a percentage of GDP; debt net of financial assets is projected to reach 67.1 percent of GDP at the end of 2012 and 69.5 percent at the end of 2013 and then to begin to decline very gradually after 2014.

### Trends in Debt Since World War II

Table 6–1 depicts trends in Federal debt held by the public from World War II to the present and estimates from the present through 2017. (It is supplemented for earlier years by Tables 7.1–7.3 in *Historical Tables*, which is published as a separate volume of the Budget.) Federal debt peaked at 108.7 percent of GDP in 1946, just after the end of the war. From then until the 1970s, Federal debt as a percentage of GDP decreased almost every year because of relatively small deficits, an expanding economy, and inflation. With households borrowing large amounts to buy homes and consumer durables, and with businesses borrowing large amounts to buy plant and equipment, Federal debt also decreased almost every year as a percentage of total credit market debt outstanding. The cumulative effect was impressive. From 1950 to 1975, debt held by the public declined from 80.2 percent of GDP

to 25.3 percent, and from 53.3 percent of credit market debt to 18.4 percent. Despite rising interest rates, interest outlays became a smaller share of the budget and were roughly stable as a percentage of GDP.

Federal debt relative to GDP is a function of the Nation's fiscal policy as well as overall economic conditions. During the 1970s, large budget deficits emerged as spending grew faster than receipts and as the economy was disrupted by oil shocks and rising inflation. The nominal amount of Federal debt more than doubled, and Federal debt relative to GDP and credit market debt stopped declining after the middle of the decade. The growth of Federal debt accelerated at the beginning of the 1980s, due in large part to a deep recession, and the ratio of Federal debt to GDP grew sharply. It continued to grow throughout the 1980s as large tax cuts, enacted in 1981, and substantial increases in defense spending were only partially offset by reductions in domestic spending. The resulting deficits increased the debt to almost 50 percent of GDP by 1993. The ratio of Federal debt to credit market debt also rose, though to a lesser extent. Interest outlays on debt held by the public, calculated as a percentage of either total Federal outlays or GDP, increased as well.

The growth of Federal debt held by the public was slowing by the mid-1990s. In addition to a growing economy, three major budget agreements were enacted in the 1990s, implementing spending cuts and revenue increases and significantly reducing deficits. The debt declined markedly relative to both GDP and total credit market debt, from 1997 to 2001, as surpluses emerged. Debt fell from 49.3 percent of GDP in 1993 to 32.5 percent of GDP in 2001. Over that same period, debt fell from 26.6 percent of total credit market debt to 17.5 percent. Interest as a share of outlays peaked at 16.5 percent in 1989 and then fell to 8.9 percent by 2002; interest as a percentage of GDP fell by a similar proportion.

The impressive progress in reducing the debt burden stopped and then reversed course beginning in 2002. A decline in the stock market, a recession, and the initially slow recovery from that recession all reduced tax receipts. The tax cuts of 2001 and 2003 had a similarly large and longer-lasting effect, as did the growing costs of the wars in Iraq and Afghanistan. Deficits ensued and debt began to rise, both in nominal terms and as a percentage of GDP. There was a small temporary improvement in 2006 and 2007 as economic growth led to a short-lived revival of receipt growth.

As a result of the most recent recession, which began in December 2007, and the massive financial and economic challenges it imposed on the Nation, the deficit began increasing rapidly in 2008. The deficit increased more substantially in 2009 as the Government continued to take aggressive steps to restore the health of the

<sup>1</sup> For further discussion of these other financing transactions, see the discussion in the "Government Deficits or Surpluses and the Change in Debt" section of this chapter and the presentation in Table 6-2.



**Table 6–1. TRENDS IN FEDERAL DEBT HELD BY THE PUBLIC**  
(Dollar amounts in billions)

Fiscal Year	Debt held by the public:		Debt held by the public as a percent of:		Interest on the debt held by the public as a percent of: <sup>3</sup>	
	Current dollars	FY 2011 dollars <sup>1</sup>	GDP	Credit market debt <sup>2</sup>	Total outlays	GDP
1946 .....	241.9	2,324.7	108.7	N/A	7.4	1.8
1950 .....	219.0	1,712.9	80.2	53.3	11.4	1.8
1955 .....	226.6	1,557.3	57.2	43.2	7.6	1.3
1960 .....	236.8	1,444.9	45.6	33.7	8.5	1.5
1965 .....	260.8	1,487.7	37.9	26.9	8.1	1.4
1970 .....	283.2	1,343.4	28.0	20.8	7.9	1.5
1975 .....	394.7	1,377.8	25.3	18.4	7.5	1.6
1980 .....	711.9	1,718.7	26.1	18.5	10.6	2.3
1985 .....	1,507.3	2,773.7	36.4	22.3	16.2	3.7
1990 .....	2,411.6	3,800.7	42.1	22.6	16.2	3.5
1995 .....	3,604.4	5,004.6	49.1	26.7	15.8	3.3
2000 .....	3,409.8	4,358.5	34.7	19.1	13.0	2.4
2001 .....	3,319.6	4,145.5	32.5	17.5	11.6	2.1
2002 .....	3,540.4	4,349.4	33.6	17.5	8.9	1.7
2003 .....	3,913.4	4,711.4	35.6	17.8	7.5	1.5
2004 .....	4,295.5	5,043.6	36.8	17.4	7.3	1.4
2005 .....	4,592.2	5,222.2	36.9	17.1	7.7	1.5
2006 .....	4,829.0	5,311.0	36.6	16.5	8.9	1.8
2007 .....	5,035.1	5,378.6	36.3	15.8	9.2	1.8
2008 .....	5,803.1	6,058.4	40.5	17.1	8.7	1.8
2009 .....	7,544.7	7,764.6	54.1	21.3	5.7	1.4
2010 .....	9,018.9	9,196.4	62.8	24.7	6.6	1.6
2011 .....	10,128.2	10,128.2	67.7	26.8	7.4	1.8
2012 estimate .....	11,578.1	11,367.7	74.2	N/A	7.1	1.7
2013 estimate .....	12,636.7	12,204.7	77.4	N/A	7.9	1.8
2014 estimate .....	13,445.3	12,779.9	78.4	N/A	9.2	2.1
2015 estimate .....	14,197.6	13,257.5	78.1	N/A	10.9	2.4
2016 estimate .....	14,980.2	13,741.0	77.8	N/A	12.5	2.8
2017 estimate .....	15,713.5	14,158.8	77.1	N/A	13.8	3.1

N/A = Not available.

<sup>1</sup> Debt in current dollars deflated by the GDP chain-type price index with fiscal year 2011 equal to 100.

<sup>2</sup> Total credit market debt owed by domestic nonfinancial sectors. Financial sectors are omitted to avoid double counting, since financial intermediaries borrow in the credit market primarily in order to finance lending in the credit market. Source: Federal Reserve Board flow of funds accounts. Projections are not available.

<sup>3</sup> Interest on debt held by the public is estimated as the interest on Treasury debt securities less the "interest received by trust funds" (subfunction 901 less subfunctions 902 and 903). The estimate of interest on debt held by the public does not include the comparatively small amount of interest paid on agency debt or the offsets for interest on Treasury debt received by other Government accounts (revolving funds and special funds).

Nation's economy and financial markets. The deficit fell somewhat in 2010 and increased only slightly in 2011. The deficit is projected to increase in 2012 but then to recede thereafter. Debt held by the public as a percent of GDP is estimated to grow to 74.2 percent at the end of 2012 and 77.4 percent at the end of 2013. Debt net of financial assets as a percent of GDP is estimated to grow to 67.1 percent at the end of 2012 and 69.5 percent at the end of 2013 and then to begin to decline slowly after

2014. To ensure continued reductions in the debt in relation to the economy, the Administration has proposed a budget enforcement mechanism that sets declining annual ceilings for debt net of financial assets as a percentage of GDP, beginning with 2014. Under the proposal, the ceilings would be enforced by automatic reductions in spending and tax expenditures. For further discussion of this "debt trigger" mechanism, see Chapter 14, "Budget Process," in this volume.



### Debt Held by the Public and Gross Federal Debt

The Federal Government issues debt securities for two principal purposes. First, it borrows from the public to finance the Federal deficit.<sup>2</sup> Second, it issues debt to Federal Government accounts, primarily trust funds, which accumulate surpluses. By law, trust fund surpluses must generally be invested in Federal securities. The gross Federal debt is defined to consist of both the debt held by the public and the debt held by Government accounts. Nearly all the Federal debt has been issued by the Treasury and is sometimes called “public debt,” but a small portion has been issued by other Government agencies and is called “agency debt.”<sup>3</sup>

Borrowing from the public, whether by the Treasury or by some other Federal agency, is important because it represents the Federal demand on credit markets. Regardless of whether the proceeds are used for tangible or intangible investments or to finance current consumption, the Federal demand on credit markets has to be financed out of the saving of households and businesses, the State and local sector, or the rest of the world. Federal borrowing thereby competes with the borrowing of other sectors of the economy for financial resources in the credit market. Borrowing from the public thus affects the size and composition of assets held by the private sector and the amount of saving imported from abroad. It also increases the amount of future resources required to pay interest to the public on Federal debt. Borrowing from the public is therefore an important concern of Federal fiscal policy.<sup>4</sup> Borrowing from the public, however, is an incomplete measure of the Federal impact on credit markets. Different types of Federal activities can affect the credit markets in different ways. For example, with the Federal Government’s recent extraordinary efforts to stabilize credit markets, the Government used the borrowed funds to acquire financial assets that would otherwise have required financing in the credit markets directly. (For more information on other ways in which Federal activities impact the credit market, see the discussion at the end of this chapter.)

Issuing debt securities to Government accounts performs an essential function in accounting for the operation of these funds. The balances of debt represent the cumulative surpluses of these funds due to the excess of

their tax receipts, interest receipts, and other collections over their spending. The interest on the debt that is credited to these funds accounts for the fact that some earmarked taxes and user charges will be spent at a later time than when the funds receive the monies. The debt securities are assets of those funds but are a liability of the general fund to the funds that hold the securities, and are a mechanism for crediting interest to those funds on their recorded balances. These balances generally provide the fund with authority to draw upon the U.S. Treasury in later years to make future payments on its behalf to the public. Public policy may result in the Government’s running surpluses and accumulating debt in trust funds and other Government accounts in anticipation of future spending.

However, issuing debt to Government accounts does not have any of the credit market effects of borrowing from the public. It is an internal transaction of the Government, made between two accounts that are both within the Government itself. Issuing debt to a Government account is not a current transaction of the Government with the public; it is not financed by private saving and does not compete with the private sector for available funds in the credit market. While such issuance provides the account with assets—a binding claim against the Treasury—those assets are fully offset by the increased liability of the Treasury to pay the claims, which will ultimately be covered by the collection of revenues or by borrowing. Similarly, the current interest earned by the Government account on its Treasury securities does not need to be financed by other resources.

Furthermore, the debt held by Government accounts does not represent the estimated amount of the account’s obligations or responsibilities to make future payments to the public. For example, if the account records the transactions of a social insurance program, the debt that it holds does not necessarily represent the actuarial present value of estimated future benefits (or future benefits less taxes) for the current participants in the program; nor does it necessarily represent the actuarial present value of estimated future benefits (or future benefits less taxes) for the current participants plus the estimated future participants over some stated time period. The future transactions of Federal social insurance and employee retirement programs, which own 93 percent of the debt held by Government accounts, are important in their own right and need to be analyzed separately. This can be done through information published in the actuarial and financial reports for these programs.<sup>5</sup>

This Budget uses a variety of information sources to analyze the condition of Social Security and Medicare, the Government’s two largest social insurance programs. Chapter 5, “Long-Term Budget Outlook,” projects Social Security and Medicare outlays to the year 2085 relative

<sup>2</sup> For the purposes of the Budget, “debt held by the public” is defined as debt held by investors outside of the Federal Government, both domestic and foreign, including U.S. State and local governments and foreign governments. It also includes debt held by the Federal Reserve.

<sup>3</sup> The term “agency debt” is defined more narrowly in the budget than customarily in the securities market, where it includes not only the debt of the Federal agencies listed in Table 6–4, but also the debt of the Government-Sponsored Enterprises listed in Table 23–9 at the end of Chapter 23, “Credit and Insurance,” and certain Government-guaranteed securities.

<sup>4</sup> The Federal subsector of the national income and product accounts provides a measure of “net government saving” (based on current expenditures and current receipts) that can be used to analyze the effect of Federal fiscal policy on national saving within the framework of an integrated set of measures of aggregate U.S. economic activity. The Federal subsector and its differences from the budget are discussed in Chapter 29, “National Income and Product Accounts.”

<sup>5</sup> Extensive actuarial analyses of the Social Security and Medicare programs are published in the annual reports of the boards of trustees of these funds. The actuarial estimates for Social Security, Medicare, and the major Federal employee retirement programs are summarized in the *Financial Report of the United States Government*, prepared annually by the Treasury Department in coordination with the Office of Management and Budget.

**Table 6-2. FEDERAL GOVERNMENT FINANCING AND DEBT**  
(In billions of dollars)

	Actual 2011	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Financing:</b>												
Unified budget deficit .....	1,299.6	1,326.9	901.4	667.8	609.7	648.8	612.4	575.5	625.7	657.9	680.7	704.3
Other transactions affecting borrowing from the public:												
Changes in financial assets and liabilities: <sup>1</sup>												
Change in Treasury operating cash balance .....	-251.7	1.9										
Net disbursements of credit financing accounts:												
Direct loan accounts .....	49.5	138.5	162.1	156.6	148.6	135.5	125.7	116.8	109.6	108.0	106.5	110.8
Guaranteed loan accounts .....	10.3	9.6	11.5	0.6	-0.3	1.3	-0.2	1.3	0.8	-1.6	-5.1	-5.4
Troubled Asset Relief Program equity purchase accounts .....	-2.0	-26.7	-14.9	-15.0	-4.5	-1.2	-3.6	-1.8	-1.2	-3.4	-0.2	-0.2
Subtotal, net disbursements .....	57.9	121.4	158.6	142.2	143.8	135.6	122.0	116.3	109.1	103.0	101.1	105.1
Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust ...	-1.3	-0.3	-1.4	-1.4	-1.2	-1.7	-1.1	-1.2	-1.3	-1.2	-1.2	-1.0
Net change in other financial assets and liabilities <sup>2</sup> ...	4.9											
Subtotal, changes in financial assets and liabilities .....	-190.3	123.0	157.3	140.8	142.6	133.9	120.8	115.1	107.8	101.8	99.9	104.1
Seigniorage on coins .....		-0.1	-*	-*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Total, other transactions affecting borrowing from the public .....	-190.3	122.9	157.2	140.8	142.6	133.9	120.8	115.0	107.8	101.8	99.8	104.1
Total, requirement to borrow from the public (equals change in debt held by the public) ...	1,109.3	1,449.9	1,058.6	808.6	752.3	782.6	733.2	690.5	733.5	759.6	780.5	808.4
<b>Changes in Debt Subject to Statutory Limitation:</b>												
Change in debt held by the public .....	1,109.3	1,449.9	1,058.6	808.6	752.3	782.6	733.2	690.5	733.5	759.6	780.5	808.4
Change in debt held by Government accounts .....	126.1	136.8	138.4	143.4	174.4	182.3	201.4	228.4	173.5	164.8	150.9	123.8
Less: change in debt not subject to limit and other adjustments .....	0.3	0.7	1.1	0.8	0.8	1.8	1.1	1.0	1.2	1.2	1.9	1.8
Total, change in debt subject to statutory limitation .....	1,235.7	1,587.3	1,198.2	952.8	927.5	966.7	935.7	919.9	908.2	925.7	933.3	934.0
<b>Debt Subject to Statutory Limitation, End of Year:</b>												
Debt issued by Treasury .....	14,737.2	16,323.3	17,520.0	18,471.5	19,398.0	20,363.4	21,298.5	22,217.8	23,125.3	24,050.9	24,984.2	25,918.2
Less: Treasury debt not subject to limitation (-) <sup>3</sup> .....	-9.4	-8.1	-6.7	-5.3	-4.3	-3.0	-2.3	-1.8	-1.1	-1.1	-1.1	-1.2
Agency debt subject to limitation .....	*	*	*	*	*	*	*	*	*	*	*	*
Adjustment for discount and premium <sup>4</sup> .....	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7	18.7
Total, debt subject to statutory limitation <sup>5</sup> .....	14,746.6	16,333.9	17,532.1	18,484.9	19,412.5	20,379.2	21,314.9	22,234.8	23,142.9	24,068.6	25,001.8	25,935.8
<b>Debt Outstanding, End of Year:</b>												
Gross Federal debt: <sup>6</sup>												
Debt issued by Treasury .....	14,737.2	16,323.3	17,520.0	18,471.5	19,398.0	20,363.4	21,298.5	22,217.8	23,125.3	24,050.9	24,984.2	25,918.2
Debt issued by other agencies .....	27.0	27.6	27.9	28.5	28.7	28.2	27.8	27.4	26.9	25.6	23.7	21.9
Total, gross Federal debt .....	14,764.2	16,350.9	17,547.9	18,500.0	19,426.7	20,391.7	21,326.3	22,245.2	23,152.1	24,076.6	25,008.0	25,940.1
Held by:												
Debt held by Government accounts .....	4,636.0	4,772.8	4,911.2	5,054.7	5,229.1	5,411.4	5,612.8	5,841.3	6,014.7	6,179.5	6,330.4	6,454.2
Debt held by the public <sup>7</sup> .....	10,128.2	11,578.1	12,636.7	13,445.3	14,197.6	14,980.2	15,713.5	16,403.9	17,137.4	17,897.1	18,677.6	19,485.9

\*\$50 million or less.

<sup>1</sup> A decrease in the Treasury operating cash balance (which is an asset) is a means of financing a deficit and therefore has a negative sign. An increase in checks outstanding (which is a liability) is also a means of financing a deficit and therefore also has a negative sign.

<sup>2</sup> Includes checks outstanding, accrued interest payable on Treasury debt, uninvested deposit fund balances, allocations of special drawing rights, and other liability accounts; and, as an offset, cash and monetary assets (other than the Treasury operating cash balance), other asset accounts, and profit on sale of gold.

<sup>3</sup> Consists primarily of debt issued by or held by the Federal Financing Bank.

<sup>4</sup> Consists mainly of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

<sup>5</sup> The statutory debt limit is \$16,394 billion, as increased after January 27, 2012.

<sup>6</sup> Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities are almost all measured at face value. Treasury securities in the Government account series are otherwise measured at face value less unrealized discount (if any).

<sup>7</sup> At the end of 2011, the Federal Reserve Banks held \$1,664.7 billion of Federal securities and the rest of the public held \$8,463.5 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

to GDP. The excess of future Social Security and Medicare benefits relative to their dedicated income is very different in concept and much larger in size than the amount of Treasury securities that these programs hold.

For all these reasons, debt held by the public and debt net of financial assets are both better gauges of the effect of the budget on the credit markets than gross Federal debt.

### Government Deficits or Surpluses and the Change in Debt

Table 6–2 summarizes Federal borrowing and debt from 2011 through 2022.<sup>6</sup> In 2011 the Government borrowed \$1,109 billion, increasing the debt held by the public from \$9,019 billion at the end of 2010 to \$10,128 billion at the end of 2011. The debt held by Government accounts increased \$126 billion, and gross Federal debt increased by \$1,235 billion to \$14,764 billion.

**Debt held by the public.**—The Federal Government primarily finances deficits by borrowing from the public, and it primarily uses surpluses to repay debt held by the public.<sup>7</sup> Table 6–2 shows the relationship between the Federal deficit or surplus and the change in debt held by the public. The borrowing or debt repayment depends on the Federal Government’s expenditure programs and tax laws, on the economic conditions that influence tax receipts and outlays, and on debt management policy. The sensitivity of the budget to economic conditions is analyzed in Chapter 3, “Interactions Between the Economy and the Budget,” in this volume.

The total or unified budget surplus consists of two parts: the on-budget surplus or deficit; and the surplus of the off-budget Federal entities, which have been excluded from the budget by law. Under present law, the off-budget Federal entities are the Social Security trust funds (Old-Age and Survivors Insurance and Disability Insurance) and the Postal Service fund.<sup>8</sup> The on-budget and off-budget surpluses or deficits are added together to determine the Government’s financing needs.

Over the long run, it is a good approximation to say that “the deficit is financed by borrowing from the public” or “the surplus is used to repay debt held by the public.” However, the Government’s need to borrow in any given year has always depended on several other factors besides the unified budget surplus or deficit, such as the change in the Treasury operating cash balance. These other factors—“other transactions affecting borrowing from the public”—can either increase or decrease the

Government’s need to borrow and can vary considerably in size from year to year. As a result of the Government’s recent extraordinary efforts to stabilize the Nation’s credit markets, these other factors have had significantly increased effects on borrowing from the public. The other transactions affecting borrowing from the public are presented in Table 6–2 (an increase in the need to borrow is represented by a positive sign, like the deficit).

In 2011 the deficit was \$1,300 billion while these other factors—primarily the change in the Treasury operating cash balance, partly offset by the net activity of credit financing accounts—reduced the need to borrow by \$190 billion. As a result, the Government borrowed \$1,109 billion from the public. The other factors are estimated to increase borrowing by \$123 billion in 2012 and \$157 billion in 2013. In 2014–2022, these other factors are expected to increase borrowing by annual amounts ranging from \$100 billion to \$143 billion.

Prior to 2008, the effect of these other transactions had been much smaller. In the 20 years between 1988 and 2007, the cumulative deficit was \$2,956 billion, the increase in debt held by the public was \$3,145 billion, and other factors added a total of \$190 billion of borrowing, 6 percent of total borrowing over this period. By contrast, the other factors resulted in more than 40 percent of the total increase in borrowing from the public for 2008, nearly 20 percent of the increase for 2009, and over 12 percent of the increase for 2010. In 2011, the other factors reduced borrowing by about 15 percent.

Three specific factors presented in Table 6–2 are especially important.

**Change in Treasury operating cash balance.**—In 2008–2011, changes in the cash balance were largely driven by fluctuations in the temporary Supplementary Financing Program (SFP). Under the SFP, Treasury issued short-term debt and deposited the cash proceeds with the Federal Reserve for use by the Federal Reserve in its actions to stabilize the financial markets. The cash balance increased by a record \$296 billion in 2008, primarily as a result of the creation of the SFP. In 2009, the cash balance decreased by \$96 billion, due to a \$135 billion reduction in the SFP balance offset by a \$38 billion increase in the non-SFP cash balance. In 2010, the cash balance increased by \$35 billion, to \$310 billion, due nearly entirely to an increase in the SFP balance. In 2011, the cash balance decreased by \$252 billion to \$58 billion, due largely to a \$200 billion decrease in the SFP balance. As the Federal Government neared the debt ceiling, the SFP balance was reduced down to zero. In the 10 years preceding 2008, changes in the cash balance had been much smaller, ranging from a decrease of \$26 billion in 2003 to an increase of \$23 billion in 2007. The operating cash balance is projected to increase by \$2 billion, to \$60 billion at the end of 2012. Changes in the operating cash balance, while occasionally large, are inherently limited over time. Decreases in cash—a means of financing the Government—are limited by the amount of past accumulations, which themselves required financing when they were built up. Increases are limited because it is generally more efficient to repay debt.

<sup>6</sup> For projections of the debt beyond 2022, see Chapter 5, “Long-Term Budget Outlook.”

<sup>7</sup> Treasury debt held by the public is measured as the sales price plus the amortized discount (or less the amortized premium). At the time of sale, the book value equals the sales price. Subsequently, it equals the sales price plus the amount of the discount that has been amortized up to that time. In equivalent terms, the book value of the debt equals the principal amount due at maturity (par or face value) less the unamortized discount. (For a security sold at a premium, the definition is symmetrical.) For inflation-indexed notes and bonds, the book value includes a periodic adjustment for inflation. Agency debt is generally recorded at par.

<sup>8</sup> For further explanation of the off-budget Federal entities, see Chapter 13, “Coverage of the Budget.”



*Net financing disbursements of the direct loan and guaranteed loan financing accounts.*—Under the Federal Credit Reform Act of 1990 (FCRA), budget outlays for direct loans and loan guarantees consist of the estimated subsidy cost of the loans or guarantees at the time when the direct loans are disbursed or the guaranteed loans are made. The cash flows to and from the public resulting from these loans and guarantees—the disbursement and repayment of loans, the default payments on loan guarantees, the collections of interest and fees, and so forth—are not costs (or offsets to costs) to the Government except for their subsidy costs (the present value of the estimated net losses), which are already included in budget outlays. Therefore, although they affect Treasury’s net borrowing requirements, they are non-budgetary in nature and are recorded as transactions of the non-budgetary financing account for each credit program.<sup>9</sup>

The financing accounts also include several types of intragovernmental transactions. In particular, they receive payment from the credit program accounts for the costs of new direct loans and loan guarantees; they also receive payment for any upward reestimate of the costs of direct loans and loan guarantees outstanding. These collections are offset against the gross disbursements of the financing accounts in determining the accounts’ total net cash flows. The gross disbursements include outflows to the public—such as of loan funds or default payments—as well as the payment of any downward reestimate of costs to budgetary receipt accounts. The total net cash flows of the financing accounts, consisting of transactions with both the public and the budgetary accounts, are called “net financing disbursements.” They occur in the same way as the “outlays” of a budgetary account, even though they do not represent budgetary costs, and therefore affect the requirement for borrowing from the public in the same way as the deficit.

The intragovernmental transactions of the financing accounts do not affect Federal borrowing from the public. Although the deficit changes because of the budget’s outlay to, or receipt from, a financing account, the net financing disbursement changes in an equal amount with the opposite sign, so the effects are cancelled out. On the other hand, financing account disbursements to the public increase the requirement for borrowing from the public in the same way as an increase in budget outlays that are disbursed to the public in cash. Likewise, financing account receipts from the public can be used to finance the payment of the Government’s obligations, and therefore they reduce the requirement for Federal borrowing from the public in the same way as an increase in budget receipts.

In some years, large net upward or downward reestimates in the cost of outstanding direct and guaranteed loans may cause large swings in the net financing disbursements. In 2011, due primarily to the Troubled Asset Relief Program (TARP) and student loan programs, down-

ward reestimates were significantly larger than upward reestimates, resulting in a net downward reestimate of \$71 billion. In 2012, there is a net upward reestimate of \$14 billion, due largely to upward reestimates in the TARP and Federal Housing Administration Mutual Mortgage Insurance programs.

The impact of the net financing disbursements on borrowing increased significantly in 2009, largely as a result of Government actions to address the Nation’s financial and economic challenges including through TARP, purchases of mortgage-backed securities issued or guaranteed by the Government-Sponsored Enterprises (GSEs), and the Temporary Student Loan Purchase Program. Net financing disbursements increased from \$33 billion in 2008 to a record \$406 billion in 2009. In 2010, borrowing due to financing accounts fell by more than half, to \$153 billion, due in part to large repayments of TARP assistance. In 2011, borrowing due to financing accounts fell to \$58 billion, due largely to sales of GSE mortgage-backed securities. In 2012 credit financing accounts are projected to increase borrowing by \$121 billion. After 2012, the credit financing accounts are expected to increase borrowing by amounts ranging from \$101 billion to \$159 billion over the next 10 years.

*Net purchases of non-Federal securities by the National Railroad Retirement Investment Trust (NRRIT).*—This trust fund was established by the Railroad Retirement and Survivors’ Improvement Act of 2001. In 2003, most of the assets in the Railroad Retirement Board trust funds were transferred to the NRRIT trust fund, which invests its assets primarily in private stocks and bonds. The Act required special treatment of the purchase or sale of non-Federal assets by this trust fund, treating such purchases as a means of financing rather than outlays. Therefore, the increased need to borrow from the public to finance NRRIT’s purchases of non-Federal assets is part of the “other transactions affecting borrowing from the public” rather than included as an increase in the deficit. While net purchases and redemptions affect borrowing from the public, unrealized gains and losses on NRRIT’s portfolio are included in both the other factors and, with the opposite sign, in NRRIT’s net outlays in the deficit, for no net impact on borrowing from the public. The increased borrowing associated with the initial transfer expanded publicly held debt by \$20 billion in 2003. Net transactions in subsequent years have been much smaller. In 2011, net reductions, including redemptions and losses, were \$1 billion. Net redemptions of \$0.3 billion are projected for 2012 and net redemptions of roughly \$1 billion annually are projected for subsequent years.<sup>10</sup>

*Debt held by Government accounts.*—The amount of Federal debt issued to Government accounts depends largely on the surpluses of the trust funds, both on-budget and off-budget, which owned 92 percent of the total Federal debt held by Government accounts at the end of 2011. In 2011, the total trust fund surplus was \$97 billion, and trust funds invested \$99 billion in Federal securities. Investment may differ somewhat from the surplus due to

<sup>9</sup> The Federal Credit Reform Act of 1990 (sec. 505(b)) requires that the financing accounts be non-budgetary. As explained in Chapter 13, “Coverage of the Budget,” they are non-budgetary in concept because they do not measure cost. For additional discussion of credit programs, see Chapter 23, “Credit and Insurance,” and Chapter 12, “Budget Concepts.”

<sup>10</sup> The budget treatment of this fund is further discussed in Chapter 12, “Budget Concepts.”

changes in the amount of cash assets not currently invested. The remainder of debt issued to Government accounts is owned by a number of special funds and revolving funds. The debt held in major accounts and the annual investments are shown in Table 6–5.

### Debt Held by the Public Net of Financial Assets and Liabilities

While debt held by the public is a key measure for examining the role and impact of the Federal Government in the U.S. and international credit markets and for other purposes, it provides incomplete information on the Government's financial condition. The U.S. Government holds significant financial assets, which must be offset against debt held by the public and other financial liabilities to achieve a more complete understanding of the Government's financial condition. The acquisition of those financial assets represents a transaction with the credit markets, broadening those markets in a way that is analogous to the demand on credit markets that borrowing entails. For this reason, debt held by the public is also an incomplete measure of the impact of the Federal Government in the U.S. and international credit markets.

One transaction that can increase both borrowing and assets is an increase to the Treasury operating cash balance. When the Government borrows to increase the Treasury operating cash balance, that cash balance also represents an asset that is available to the Federal Government. Looking at both sides of this transaction—the borrowing to obtain the cash and the asset of the cash holdings—provides much more complete information about the Government's financial condition than looking at only the borrowing from the public. Another example

of a transaction that simultaneously increases borrowing from the public and Federal assets is Government borrowing to issue direct loans to the public. When the direct loan is made, the Government is also acquiring an asset in the form of future payments of principal and interest, net of the Government's expected losses on the loans. Similarly, when the National Railroad Retirement Investment Trust increases its holdings of non-Federal securities, the borrowing to purchase those securities is offset by the value of the asset holdings.

The acquisition or disposition of Federal financial assets very largely explains the difference between the deficit for a particular year and that year's increase in debt held by the public. Debt net of financial assets is a measure that is conceptually closer to the measurement of Federal deficits or surpluses; cumulative deficits and surpluses over time more closely equal the debt net of financial assets than they do the debt held by the public.

The magnitude and the significance of the Government's financial assets increased greatly from the later part of 2008 through 2010, as a result of Government actions, such as implementation of TARP, to address the challenges facing the Nation's financial markets and economy.<sup>11</sup> In 2011, as some of these activities continued to wind down, the Government's net financial assets decreased from \$1,125 billion to \$958 billion.

Table 6–3 presents debt held by the public net of the Government's financial assets and liabilities, or “net debt.” Treasury debt is presented in the Budget at book value, with no adjustments for the change in economic

<sup>11</sup> For more information on these activities, see Chapter 4, “Financial Stabilization Efforts and Their Budgetary Effects.”

**Table 6–3. DEBT HELD BY THE PUBLIC NET OF FINANCIAL ASSETS AND LIABILITIES**

(Dollar amounts in billions)

	Actual	Estimate											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
<b>Debt Held by the Public:</b>													
Debt held by the public .....	10,128.2	11,578.1	12,636.7	13,445.3	14,197.6	14,980.2	15,713.5	16,403.9	17,137.4	17,897.1	18,677.6	19,485.9	
As a percent of GDP .....	67.7%	74.2%	77.4%	78.4%	78.1%	77.8%	77.1%	76.5%	76.4%	76.5%	76.5%	76.5%	
<b>Financial Assets Net of Liabilities:</b>													
Treasury operating cash balance .....	58.1	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	
Credit financing account balances:													
Direct loan accounts .....	717.5	856.0	1,018.1	1,174.7	1,323.3	1,458.8	1,584.5	1,701.3	1,810.9	1,918.9	2,025.4	2,136.2	
Guaranteed loan accounts .....	-22.1	-12.5	-1.0	-0.3	-0.6	0.7	0.5	1.8	2.6	1.0	-4.1	-9.5	
TARP equity purchase accounts .....	74.9	48.2	33.2	18.2	13.6	12.5	8.9	7.1	5.8	2.4	2.1	1.9	
Subtotal, credit financing account balances .....	770.3	891.7	1,050.3	1,192.5	1,336.3	1,472.0	1,593.9	1,710.2	1,819.3	1,922.3	2,023.5	2,128.6	
Government-sponsored enterprise preferred stock .....	133.0	163.6	173.4	176.5	176.5	176.5	176.5	176.5	176.5	176.5	176.5	176.5	
Non-Federal securities held by NRRIT .....	21.4	21.1	19.8	18.4	17.2	15.5	14.4	13.2	11.9	10.7	9.5	8.5	
Other assets net of liabilities .....	-25.1	-25.1	-25.1	-25.1	-25.1	-25.1	-25.1	-25.1	-25.1	-25.1	-25.1	-25.1	
Total, financial assets net of liabilities .....	957.8	1,111.4	1,278.4	1,422.4	1,565.1	1,699.0	1,819.8	1,934.9	2,042.7	2,144.5	2,244.4	2,348.6	
<b>Debt Held by the Public Net of Financial Assets and Liabilities:</b>													
Debt held by the public net of financial assets .....	9,170.4	10,466.7	11,358.3	12,022.9	12,632.5	13,281.2	13,893.6	14,469.0	15,094.7	15,752.5	16,433.1	17,137.3	
As a percent of GDP .....	61.3%	67.1%	69.5%	70.1%	69.5%	69.0%	68.2%	67.5%	67.3%	67.3%	67.3%	67.2%	



value that results from fluctuations in interest rates. The balances of credit financing accounts are based on projections of future cash flows. For direct loan financing accounts, the balance generally represents the net present value of anticipated future inflows such as principal and interest payments from borrowers. For guaranteed loan financing accounts, the balance generally represents the net present value of anticipated future outflows, such as default claim payments net of recoveries. NRRIT's holdings of non-Federal securities are marked to market on a monthly basis. GSE preferred stock is measured at market value.

At the end of 2011, debt held by the public was \$10,128 billion, or 67.7 percent of GDP. The Government held \$958 billion in net financial assets, including a cash balance of \$58 billion, net credit financing account balances of \$770 billion,<sup>12</sup> and other assets and liabilities that aggregated to a net asset of \$129 billion. Therefore, debt net of financial assets was \$9,170 billion, or 61.3 percent of GDP. As shown in Table 6-3, the value of the Government's net financial assets is projected to increase to \$1,111 billion in 2012, due largely to increases in the net balances of credit financing accounts. While debt held by the public is expected to increase from 67.7 percent to 74.2 percent of GDP during 2012, net debt is expected to increase from 61.3 percent to 67.1 percent of GDP.

Debt securities and other financial assets and liabilities do not encompass all the assets and liabilities of the Federal Government. For example, accounts payable occur in the normal course of buying goods and services; Social Security benefits are due and payable as of the end of the month but, according to statute, are paid during the next month; and Federal employee salaries are paid after they have been earned. Like debt securities sold in the credit market, these liabilities have their own distinctive effects on the economy. The Federal Government also has significant holdings of non-financial assets, such as land, mineral deposits, buildings, and equipment. A unique and important asset is the Government's sovereign power to tax. Federal assets and liabilities are analyzed within the broader conceptual framework of Federal resources and responsibilities in Chapter 31, "Budget and Financial Reporting," in this volume. The different types of assets and liabilities are reported annually in the financial statements of Federal agencies and in the *Financial Report of the United States Government*, prepared by the Treasury Department in coordination with the Office of Management and Budget (OMB).

### Treasury Debt

Nearly all Federal debt is issued by the Department of the Treasury. Treasury meets most of the Federal

<sup>12</sup> Consistent with the presentation in the *Monthly Treasury Statement of Receipts and Outlays of the United States Government (Monthly Treasury Statement)*, Table 6-3 presents the net financial assets associated with direct and guaranteed loans in the financing accounts created under the Federal Credit Reform Act of 1990. Therefore, the figures differ by relatively small amounts from the figures in Chapter 31, "Budget and Financial Reporting," which reflect all loans made or guaranteed by the Federal Government, including loans originated prior to implementation of the FCRA.

Government's financing needs by issuing marketable securities to the public. These financing needs include both the change in debt held by the public and the refinancing—or rollover—of any outstanding debt that matures during the year. Treasury marketable debt is sold at public auctions on a regular schedule and can be bought and sold on the secondary market. Treasury also sells to the public a relatively small amount of nonmarketable securities, such as savings bonds and State and Local Government Series securities (SLUGs).<sup>13</sup> Treasury nonmarketable debt cannot be bought or sold on the secondary market.

Treasury issues marketable securities in a wide range of maturities, and issues both nominal (non-inflation-indexed) and inflation-indexed securities. Treasury's marketable securities include:

*Treasury Bills*—Treasury bills have maturities of one year or less from their issue date. In addition to the regular auction calendar of bill issuance, Treasury issues cash management bills on an as-needed basis for various reasons such as to offset the seasonal patterns of the Government's receipts and outlays.

*Treasury Notes*—Treasury notes have maturities of more than one year and up to 10 years.

*Treasury Bonds*—Treasury bonds have maturities of more than 10 years. The longest-maturity securities issued by Treasury are 30-year bonds.

*Treasury Inflation-Protected Securities (TIPS)*—Treasury inflation-protected—or inflation-indexed—securities are coupon issues for which the par value of the security rises with inflation. The principal value is adjusted every six months to reflect inflation as measured by changes in the CPI-U (with a two-month lag). Although the principal value may be adjusted downward if inflation is negative, the principal value will not be reduced below the original par value.

Historically, the average maturity of outstanding debt issued by Treasury has been about five years. The average maturity of outstanding debt was 63 months at the end of 2011.

In addition to quarterly announcements about the overall auction calendar, Treasury publicly announces in advance the auction of each security. Individuals can participate directly in Treasury auctions or can purchase securities through brokers, dealers, and other financial institutions. Treasury accepts two types of auction bids—competitive and noncompetitive. In a competitive bid, the bidder specifies the yield. A significant portion of competitive bids are submitted by primary dealers, which are banks and securities brokerages that have been designated to trade in Treasury securities with the Federal Reserve System. In a noncompetitive bid, the bidder agrees to accept the yield determined by the auction. At the close of the auction, Treasury accepts all eligible noncompetitive bids and then accepts competitive bids in ascending order beginning with the lowest yield bid until

<sup>13</sup> Under the State and Local Government Series program, the Treasury offers special low-yield securities to State and local governments and other entities for temporary investment of proceeds of tax-exempt bonds.

the offering amount is reached. All winning bidders receive the highest accepted yield bid.

Treasury marketable securities are highly liquid and actively traded on the secondary market. The liquidity of Treasury securities is reflected in the ratio of bids received to bids accepted in Treasury auctions; the demand for the securities is substantially greater than the level of issuance. Because they are backed by the full faith and credit of the United States Government, Treasury marketable securities are considered to be “risk-free.” Therefore, the Treasury yield curve is commonly used as a benchmark for a wide variety of purposes in the financial markets.

Whereas Treasury issuance of marketable debt is based on the Government’s financing needs, Treasury’s issuance of nonmarketable debt is based on the public’s demand for the specific types of investments. Increases in outstanding balances of nonmarketable debt reduce the need for marketable borrowing. In 2011, there was net disinvestment in nonmarketables, necessitating additional marketable borrowing to finance the redemption of nonmarketable debt.<sup>14</sup>

### Agency Debt

A few Federal agencies, shown in Table 6–4, sell or have sold debt securities to the public and, at times, to other Government accounts. Currently, new debt is issued only by the Tennessee Valley Authority (TVA) and the Federal Housing Administration (FHA); the remaining agencies are repaying existing borrowing. Agency debt increased from \$26.1 billion at the end of 2010 to \$27.0 billion at the end of 2011, due to increases in debt issued by TVA,

slightly offset by decreases in debt issued by other agencies. Agency debt is less than one-third of one percent of Federal debt held by the public. As a result of new borrowing by TVA, agency debt is estimated to increase by \$0.6 billion in 2012 and by \$0.3 billion in 2013.

The predominant agency borrower is the TVA, which had borrowed \$26.7 billion from the public as of the end of 2011, or 99 percent of the total debt of all agencies. TVA sells debt primarily to finance capital expenditures.

The TVA has traditionally financed its capital construction by selling bonds and notes to the public. Since 2000, it has also employed two types of alternative financing methods, lease/leaseback obligations and prepayment obligations. Under the lease/leaseback obligations method, TVA signs contracts to lease some facilities and equipment to private investors and simultaneously leases them back. It receives a lump sum for leasing out its assets, and then leases them back at fixed annual payments for a set number of years. TVA retains substantially all of the economic benefits and risks related to ownership of the assets.<sup>15</sup> Under the prepayment obligations method, TVA’s power distributors may prepay a portion of the price of the power they plan to purchase in the future. In return, they obtain a discount on a specific quantity of the future power they buy from TVA. The quantity varies, depending on TVA’s estimated cost of borrowing.

The Office of Management and Budget determined that each of these alternative financing methods is a means of financing the acquisition of assets owned and used by the Government, or of refinancing debt previously incurred

<sup>14</sup> Detail on the marketable and nonmarketable securities issued by Treasury is found in the *Monthly Statement of the Public Debt*, published on a monthly basis by the Department of Treasury.

<sup>15</sup> This arrangement is at least as governmental as a “lease-purchase without substantial private risk.” For further detail on the current budgetary treatment of lease-purchase without substantial private risk, see OMB Circular No. A–11, Appendix B.

**Table 6–4. AGENCY DEBT**

(In millions of dollars)

	2011 Actual		2012 Estimate		2013 Estimate	
	Borrowing/ Repayment(–)	Debt, End-of- Year	Borrowing/ Repayment(–)	Debt, End-of- Year	Borrowing/ Repayment(–)	Debt, End-of- Year
<b>Borrowing from the public:</b>						
Housing and Urban Development:						
Federal Housing Administration .....		28.8	*	29.0		29.0
Architect of the Capitol .....	–5.4	133.3	–5.3	128.0	–7.0	121.0
National Archives .....	–14.0	165.7	–15.2	150.5	–16.5	134.0
Tennessee Valley Authority:						
Bonds and notes .....	1,031.7	24,654.0	–2,651.3	22,002.6	513.4	22,516.0
Lease/leaseback obligations .....	–70.4	1,282.0	3,421.9	4,703.9	–78.9	4,625.0
Prepayment obligations .....	–105.3	716.8	–105.3	611.5	–101.2	510.3
<b>Total, borrowing from the public .....</b>	<b>836.7</b>	<b>26,980.7</b>	<b>644.9</b>	<b>27,625.5</b>	<b>309.8</b>	<b>27,935.4</b>
<b>Borrowing from other funds:</b>						
Tennessee Valley Authority <sup>1</sup> .....	1.6	5.9		5.9		5.9
<b>Total, borrowing from other funds .....</b>	<b>1.6</b>	<b>5.9</b>		<b>5.9</b>		<b>5.9</b>
<b>Total, agency borrowing .....</b>	<b>838.4</b>	<b>26,986.6</b>	<b>644.9</b>	<b>27,631.5</b>	<b>309.8</b>	<b>27,941.3</b>
<b>Memorandum:</b>						
Tennessee Valley Authority bonds and notes, total .....	1,033.3	24,659.9	–2,651.3	22,008.6	513.4	22,522.0

\* \$500,000 or less.

<sup>1</sup> Represents open market purchases by the National Railroad Retirement Investment Trust.

**Table 6-5. DEBT HELD BY GOVERNMENT ACCOUNTS<sup>1</sup>**  
(In millions of dollars)

Description	Investment or Disinvestment (-)			Holdings, End of 2013 Estimate
	2011 Actual	2012 Estimate	2013 Estimate	
<b>Investment in Treasury debt:</b>				
Defense: Host nation support fund for relocation .....	-3	266	.....	1,106
Energy:				
Nuclear waste disposal fund <sup>1</sup> .....	2,095	1,755	1,258	29,180
Uranium enrichment decontamination fund .....	-389	-476	10	3,906
Health and Human Services:				
Federal hospital insurance trust fund .....	-33,535	-19,619	-24,346	201,974
Federal supplementary medical insurance trust fund .....	-536	-3,946	1,135	67,635
Vaccine injury compensation fund .....	169	344	357	3,809
Child enrollment contingency fund .....	-25	-92	-187	1,814
Homeland Security:				
Aquatic resources trust fund .....	-54	-88	-49	1,745
Oil spill liability trust fund .....	724	358	339	2,922
Housing and Urban Development:				
Federal Housing Administration mutual mortgage fund .....	-37	-4,157	7,529	7,529
Guarantees of mortgage-backed securities .....	-1,428	217	-197	2,154
Interior:				
Abandoned mine reclamation fund .....	84	29	-43	2,694
Bureau of Land Management permanent operating funds .....	-255	-209	-172	785
Environmental improvement and restoration fund .....	30	-19	1	1,212
Justice: Assets forfeiture fund .....	220	1,299	-1,414	2,290
Labor:				
Unemployment trust fund .....	-2,672	379	170	16,579
Pension Benefit Guaranty Corporation <sup>1</sup> .....	1,137	244	1,552	17,287
State: Foreign service retirement and disability trust fund .....	534	534	478	17,409
Transportation:				
Airport and airway trust fund .....	1,596	-230	-993	7,418
Transportation trust fund .....	-8,153	-7,633	16,803	25,472
Aviation insurance revolving fund .....	179	224	192	2,047
Treasury:				
Exchange stabilization fund .....	2,285	1,583	.....	24,304
Treasury forfeiture fund .....	202	-478	-375	732
Comptroller of the Currency assessment fund .....	146	-62	-115	994
Veterans Affairs:				
National service life insurance trust fund .....	-620	-688	-695	6,158
Veterans special life insurance fund .....	-15	-49	-53	1,879
Corps of Engineers: Harbor maintenance trust fund .....	781	568	548	7,319
Other Defense-Civil:				
Military retirement trust fund .....	44,034	97,465	57,315	480,820
Medicare-eligible retiree health care fund .....	19,452	12,486	7,336	181,563
Education benefits fund .....	-18	-149	-128	1,731
Environmental Protection Agency:				
Leaking underground storage tank trust fund .....	22	318	26	3,794
Hazardous substance trust fund .....	-141	177	103	3,789
International Assistance Programs: Overseas Private Investment Corporation .....	139	96	83	5,290
Office of Personnel Management:				
Civil service retirement and disability trust fund .....	23,448	8,666	9,896	822,375
Postal Service retiree health benefits fund .....	1,592	3,118	3,076	49,902
Employees life insurance fund .....	2,073	2,016	2,068	43,762
Employees health benefits fund .....	2,949	1,238	49	20,481
Social Security Administration:				
Federal old-age and survivors insurance trust fund <sup>2</sup> .....	93,421	90,923	72,652	2,656,106

**Table 6-5. DEBT HELD BY GOVERNMENT ACCOUNTS<sup>1</sup>—Continued**  
(In millions of dollars)

Description	Investment or Disinvestment (-)			Holdings, End of 2013 Estimate
	2011 Actual	2012 Estimate	2013 Estimate	
Federal disability insurance trust fund <sup>2</sup> .....	-25,256	-29,374	-33,487	99,104
District of Columbia: Federal pension fund .....	-7	21	9	3,689
Farm Credit System Insurance Corporation:				
Farm Credit System Insurance fund .....	126	211	147	3,570
Federal Communications Commission:				
Universal service fund .....	-266	92	43	5,950
Federal Deposit Insurance Corporation:				
Deposit insurance fund .....	-2,516	-19,008	17,058	32,976
Senior unsecured debt guarantee fund .....	1,143	-1,004	-1	6,296
FSLIC resolution fund .....	-13	53	73	3,500
National Credit Union Administration:				
Share insurance fund .....	1,454	-12	139	10,860
Central liquidity facility .....	125	105	110	2,311
Temporary corporate credit union stabilization fund .....	1,822	-635	55	1,606
Postal Service funds <sup>2</sup> .....	424	*	.....	1,815
Railroad Retirement Board trust funds .....	-106	-265	-133	1,745
Securities Investor Protection Corporation <sup>3</sup> .....	238	59	141	1,620
United States Enrichment Corporation fund .....	26	5	4	1,602
Other Federal funds .....	-626	26	-70	4,279
Other trust funds .....	2	105	148	3,367
Unrealized discount <sup>1</sup> .....	90	.....	.....	-1,015
<b>Total, investment in Treasury debt<sup>1</sup> .....</b>	<b>126,089</b>	<b>136,786</b>	<b>138,445</b>	<b>4,911,241</b>
<b>Investment in agency debt:</b>				
Railroad Retirement Board:				
National Railroad Retirement Investment Trust .....	2	.....	.....	6
<b>Total, investment in agency debt<sup>1</sup> .....</b>	<b>2</b>	<b>.....</b>	<b>.....</b>	<b>6</b>
<b>Total, investment in Federal debt<sup>1</sup> .....</b>	<b>126,090</b>	<b>136,786</b>	<b>138,445</b>	<b>4,911,247</b>
<b>Memorandum:</b>				
Investment by Federal funds (on-budget) .....	26,787	-4,467	36,357	410,948
Investment by Federal funds (off-budget) .....	424	*	.....	1,815
Investment by trust funds (on-budget) .....	30,626	79,704	62,923	1,744,289
Investment by trust funds (off-budget) .....	68,164	61,548	39,165	2,755,210
Unrealized discount <sup>1</sup> .....	90	.....	.....	-1,015

\* \$500 thousand or less.

<sup>1</sup> Debt held by Government accounts is measured at face value except for the Treasury zero-coupon bonds held by the Nuclear waste disposal fund and the Pension Benefit Guaranty Corporation (PBGC), which are recorded at market or redemption price; and the unrealized discount on Government account series, which is not distributed by account. Changes are not estimated in the unrealized discount. If recorded at face value, at the end of 2011 the debt figures would be \$22.4 billion higher for the Nuclear waste disposal fund and \$0.2 billion higher for PBGC than recorded in this table.

<sup>2</sup> Off-budget Federal entity.

<sup>3</sup> Amounts on calendar-year basis.

to finance such assets. They are equivalent in concept to other forms of borrowing from the public, although under different terms and conditions. The budget therefore records the upfront cash proceeds from these methods as borrowing from the public, not offsetting collections.<sup>16</sup>

<sup>16</sup> This budgetary treatment differs from the treatment in the *Monthly Treasury Statement* Table 6 Schedule C, and the *Combined Statement of Receipts, Outlays, and Balances of the United States Government* Schedule 3, both published by the Department of the Treasury. These two schedules, which present debt issued by agencies other than Treasury, exclude the TVA alternative financing arrangements. This difference in treatment is one factor causing minor differences between debt figures reported in the Budget and debt figures reported by Treasury.

The budget presentation is consistent with the reporting of these obligations as liabilities on TVA's balance sheet under generally accepted accounting principles. Table 6-4 presents these alternative financing methods separately from TVA bonds and notes to distinguish between the types of borrowing. Obligations for lease/leasebacks were \$1.3 billion at the end of 2011 and are estimated to increase to \$4.7 billion at the end of 2012. Obligations for prepayments were \$0.7 billion at the end of 2011 and

The other factors are adjustments for the timing of the reporting of Federal debt held by the National Railroad Retirement Investment Trust and treatment of the Federal debt held by the Securities Investor Protection Corporation.



are estimated to be \$0.6 billion at the end of 2012. After 2012, obligations for these two types of alternative financing are estimated to gradually decline as TVA fulfills the terms of the contracts.

Although the FHA generally makes direct disbursements to the public for default claims on FHA-insured mortgages, it may also pay claims by issuing debentures. Issuing debentures to pay the Government's bills is equivalent to selling securities to the public and then paying the bills by disbursing the cash borrowed, so the transaction is recorded as being simultaneously an outlay and borrowing. The debentures are therefore classified as agency debt.

A number of years ago, the Federal Government guaranteed the debt used to finance the construction of buildings for the National Archives and the Architect of the Capitol, and subsequently exercised full control over the design, construction, and operation of the buildings. These arrangements are equivalent to direct Federal construction financed by Federal borrowing. The construction expenditures and interest were therefore classified as Federal outlays, and the borrowing was classified as Federal agency borrowing from the public.

A number of Federal agencies borrow from the Bureau of the Public Debt (BPD) or the Federal Financing Bank (FFB), both within the Department of the Treasury. Agency borrowing from the FFB or the BPD is not included in gross Federal debt. It would be double counting to add together (a) the agency borrowing from the BPD or FFB and (b) the Treasury borrowing from the public that is needed to provide the BPD or FFB with the funds to lend to the agencies.

### Debt Held by Government Accounts

Trust funds, and some special funds and public enterprise revolving funds, accumulate cash in excess of current needs in order to meet future obligations. These cash surpluses are generally invested in Treasury debt.

New investment by trust funds and other Government accounts was \$126 billion in 2011. Investment by Government accounts is estimated to be \$137 billion in 2012 and \$138 billion in 2013, as shown in Table 6–5. The holdings of Federal securities by Government accounts are estimated to increase to \$4,911 billion by the end of 2013, or 28 percent of the gross Federal debt. The percentage is estimated to decrease gradually over the next 10 years.

The Government account holdings of Federal securities are concentrated among a few funds: the Social Security Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds; the Medicare Hospital Insurance and Supplementary Medical Insurance trust funds; and four Federal employee retirement funds. These Federal employee retirement funds include the military retirement trust fund, the special fund for uniformed services Medicare-eligible retiree health care, the Civil Service Retirement and Disability Fund (CSRDF), and a separate special fund for Postal Service retiree health benefits. At the end of 2013, these Social Security, Medicare, and Federal employee retirement funds are estimated to own

93 percent of the total debt held by Government accounts. During 2011–2013, the Social Security OASI fund has a large surplus and is estimated to invest a total of \$257 billion, 64 percent of total net investment by Government accounts. Over this period, the military retirement trust fund is projected to invest \$199 billion, 50 percent of the total. Some Government accounts reduce their investments in Federal securities during 2011–2013. During these years, the Social Security DI fund disinvests \$88 billion, or 22 percent of the total net investment and the Medicare Hospital Insurance trust fund disinvests \$78 billion, or 19 percent of the total.

*Technical note on measurement.*—The Treasury securities held by Government accounts consist almost entirely of the Government account series. Most were issued at par value (face value), and the securities issued at a discount or premium were traditionally recorded at par in the OMB and Treasury reports on Federal debt. However, there are two kinds of exceptions.

First, Treasury issues zero-coupon bonds to a very few Government accounts. Because the purchase price is a small fraction of par value and the amounts are large, the holdings are recorded in Table 6–5 at par value less unamortized discount. The only two Government accounts that held zero-coupon bonds during the period of this table are the Nuclear Waste Disposal Fund in the Department of Energy and the Pension Benefit Guaranty Corporation (PBGC). The total unamortized discount on zero-coupon bonds was \$22.7 billion at the end of 2011.

Second, Treasury subtracts the unrealized discount on other Government account series securities in calculating “net Federal securities held as investments of Government accounts.” Unlike the discount recorded for zero-coupon bonds and debt held by the public, the unrealized discount is the discount at the time of issue and is not amortized over the term of the security. In Table 6–5 it is shown as a separate item at the end of the table and not distributed by account. The amount was \$1.0 billion at the end of 2011.

### Limitations on Federal Debt

*Definition of debt subject to limit.*—Statutory limitations have usually been placed on Federal debt. Until World War I, the Congress ordinarily authorized a specific amount of debt for each separate issue. Beginning with the Second Liberty Bond Act of 1917, however, the nature of the limitation was modified in several steps until it developed into a ceiling on the total amount of most Federal debt outstanding. This last type of limitation has been in effect since 1941. The limit currently applies to most debt issued by the Treasury since September 1917, whether held by the public or by Government accounts; and other debt issued by Federal agencies that, according to explicit statute, is guaranteed as to principal and interest by the United States Government.

The third part of Table 6–2 compares total Treasury debt with the amount of Federal debt that is subject to the limit. Nearly all Treasury debt is subject to the debt limit.

A large portion of the Treasury debt not subject to the general statutory limit was issued by the Federal



Financing Bank. The FFB is authorized to have outstanding up to \$15 billion of publicly issued debt. It issued \$14 billion of securities to the Civil Service Retirement and Disability Fund on November 15, 2004, in exchange for an equal amount of regular Treasury securities. The FFB securities have the same interest rates and maturities as the regular Treasury securities for which they were exchanged. The securities mature on dates from June 30, 2009, through June 30, 2019. At the end of 2011, \$8 billion of these securities remained outstanding.

The Housing and Economic Recovery Act of 2008 created a new type of debt not subject to limit. This debt, termed “Hope Bonds,” is issued by Treasury to the Federal Financing Bank for the HOPE for homeowners program. The outstanding balance of Hope Bonds was \$0.5 billion at the end of 2011 and is projected to increase by small amounts annually in 2012 through 2022.

The other Treasury debt not subject to the general limit consists almost entirely of silver certificates and other currencies no longer being issued. It was \$487 million at the end of 2011 and is projected to gradually decline over time.

The sole agency debt currently subject to the general limit, \$10 million at the end of 2011, is certain debentures issued by the Federal Housing Administration.<sup>17</sup>

Some of the other agency debt, however, is subject to its own statutory limit. For example, the Tennessee Valley Authority is limited to \$30 billion of bonds and notes outstanding.

The comparison between Treasury debt and debt subject to limit also includes an adjustment for measurement differences in the treatment of discounts and premiums. As explained earlier in this chapter, debt securities may be sold at a discount or premium, and the measurement of debt may take this into account rather than recording the face value of the securities. However, the measurement differs between gross Federal debt (and its components) and the statutory definition of debt subject to limit. An adjustment is needed to derive debt subject to limit (as defined by law) from Treasury debt. The amount of the adjustment was \$18.7 billion at the end of 2011 compared with the total unamortized discount (less premium) of \$53.1 billion on all Treasury securities.

**Changes in the debt limit.**—The statutory debt limit has been changed many times. Since 1960, Congress has passed 79 separate acts to raise the limit, extend the duration of a temporary increase, or revise the definition.<sup>18</sup>

The Budget Control Act of 2011, enacted on August 2, 2011, created a new framework for increasing the debt limit, based on the President’s submission of a series of written certifications that such increases are necessary because the debt subject to limit is within \$100 billion of the current limit. The certification triggering the first two increases was submitted immediately following the Act’s enactment. Consequently, the debt limit was first in-

creased by \$400 billion, from \$14,294 billion to \$14,694 billion, effective as of August 2, 2011, and then by an additional \$500 billion, from \$14,694 billion to \$15,194 billion, effective after the close of business on September 21.

The Act also provided for a third increase of \$1,200 billion, to \$16,394 billion.<sup>19</sup> Under the Act, the third part of the increase was scheduled to occur 15 calendar days after the President submitted certification to Congress that the debt subject to limit was within \$100 billion of the \$15,194 billion limit (unless Congress enacted a joint resolution of disapproval). The certification was submitted on January 12, 2012, and the increase took effect after the close of business on January 27.

Between July 2008 and February 2010, the debt limit was increased five times. On February 12, 2010, the debt limit was increased by \$1,900 billion to \$14,294 billion and on December 28, 2009, by \$290 billion to \$12,394 billion. The December 2009 increase, enacted shortly before the anticipated reaching of the previous limit, had been intended to cover only a short period. In the three instances between July 2008 and February 2009, the increase was included in a larger piece of legislation aimed at stabilizing the financial markets and restoring economic growth and provided room under the statutory debt ceiling for the activities authorized by each piece of legislation. On July 30, 2008, the debt limit was increased by \$800 billion, to \$10,615 billion, as part of the Housing and Economic Recovery Act of 2008. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 increased the debt limit by \$700 billion, to \$11,315 billion. On February 17, 2009, the American Recovery and Reinvestment Act of 2009 increased the statutory limit by \$789 billion, to \$12,104 billion. At the dates of enactment, the debt subject to limit was at least a few hundred billion dollars below the previous ceiling.

At many times in the past several decades, including 2011, the Government has reached the statutory debt limit before an increase has been enacted. When this has occurred, it has been necessary for the Treasury Department to take administrative actions to meet the Government’s obligation to pay its bills and invest its trust funds while remaining below the statutory limit. One such measure is the partial or full disinvestment of the Government Securities Investment Fund (G-fund). This fund is one component of the Thrift Savings Plan (TSP), a defined contribution pension plan for Federal employees. The Secretary has statutory authority to suspend investment of the G-fund in Treasury securities as needed to prevent the debt from exceeding the debt limit. Treasury determines each day the amount of investments that would allow the fund to be invested as fully as possible without exceeding the debt limit. At the end of 2011, the TSP G-fund had an outstanding balance of \$139 billion. The Treasury Secretary is also authorized to declare

<sup>17</sup> At the end of 2011, there were also \$18 million of FHA debentures not subject to limit.

<sup>18</sup> The Acts and the statutory limits since 1940 are listed in *Historical Tables, Budget of the United States Government, Fiscal Year 2013*, Table 7.3.

<sup>19</sup> Under the Act, if the constitutional amendment voted on pursuant to Title II of the Act (balanced budget amendment) had been submitted to the States for ratification, the increase would have been \$1,500 billion, or if a Joint Select Committee on Deficit Reduction bill had been enacted, pursuant to Title IV of the Act, that achieved an amount of deficit reduction greater than \$1,200 billion, the increase would have been equal to that amount, but not greater than \$1,500 billion.

a debt issuance suspension period, which allows him or her to redeem a limited amount of securities held by the Civil Service Retirement and Disability Fund and stop investing its receipts. The law requires that when any such actions are taken with the TSP G-fund or the CSRDF, the Secretary is required to make the fund whole after the debt limit has been raised by restoring the forgone interest and investing the fund fully. In 2011, Treasury determined that, because the special fund for Postal Service retiree health benefits was governed by the same laws as the CSRDF, administrative actions could also be taken with that fund.<sup>20</sup> Therefore, reinvestment of the Postal Service Retiree Health Benefits Fund's maturing balances and investment of new interest collections was briefly postponed. After the debt limit increase, the foregone interest was restored to the Postal Service Retiree Health Benefits Fund. Another measure for staying below the debt limit is disinvestment of the Exchange Stabilization Fund. The outstanding balance in the Exchange Stabilization Fund was \$23 billion at the end of 2011.

As the debt nears the limit, Treasury has also suspended acceptance of subscriptions to the State and Local Government Series to reduce unanticipated fluctuations in the level of the debt. In 2011, Treasury also allowed the cash balance in the temporary Supplementary Financing Program to decline from \$200 billion to zero by not rolling over the bills as they matured. Because Treasury does not currently have any plans to resume the SFP, this action

<sup>20</sup> Both the CSRDF and the Postal Service Retiree Health Benefits Fund are administered by the Office of Personnel Management.

is not anticipated to be an available administrative action in the future.

In addition to these steps, Treasury has previously replaced regular Treasury securities with borrowing by the FFB, which, as explained above, is not subject to the debt limit. This measure was most recently taken in November 2004, and the outstanding FFB securities began to mature in June 2009.

At the time of submission of the January 12, 2012, certification, the debt was already at the then-current limit of \$15,194 billion, which had been reached on January 4. Therefore, Treasury had begun to use some of its administrative actions, such as use of the Exchange Stabilization Fund and the TSP G-fund.

The debt limit has always been increased prior to the exhaustion of Treasury's limited available administrative actions to continue to finance Government operations when the statutory ceiling has been reached. Failure to enact a debt limit increase before these actions were exhausted would have significant and long-term negative consequences. Without an increase, Treasury would be unable to make timely interest payments or redeem maturing securities. Investors would cease to view U.S. Treasury securities as free of credit risk and Treasury's interest costs would increase. Because interest rates throughout the economy are benchmarked to the Treasury rates, interest rates for State and local governments, businesses, and individuals would also rise. Foreign investors would likely shift out of dollar-denominated assets, driving down the val-

**Table 6-6. FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT**

(In billions of dollars)

Description	Actual 2011	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Change in Gross Federal Debt:</b>												
Federal funds deficit (+) .....	1,396.6	1,426.2	1,010.1	777.2	745.3	783.9	762.9	745.3	734.9	764.8	791.9	788.6
Other transactions affecting borrowing from the public— Federal funds <sup>1</sup> .....	-188.9	123.2	158.6	142.2	143.8	135.6	121.9	116.3	109.0	103.0	101.1	105.1
Increase (+) or decrease (-) in Federal debt held by Federal funds .....	27.2	-4.5	36.4	34.1	38.9	47.1	50.9	58.6	64.3	57.9	39.6	39.5
Adjustments for trust fund surplus/deficit not invested/ disinvested in Federal securities <sup>2</sup> .....	0.4	41.8	-8.0	-1.4	-1.2	-1.7	-1.1	-1.2	-1.3	-1.2	-1.2	-1.0
Change in unrealized discount on Federal debt held by Government accounts .....	0.1	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total financing requirements .....</b>	<b>1,235.4</b>	<b>1,586.7</b>	<b>1,197.1</b>	<b>952.0</b>	<b>926.7</b>	<b>964.9</b>	<b>934.6</b>	<b>918.9</b>	<b>906.9</b>	<b>924.4</b>	<b>931.4</b>	<b>932.2</b>
<b>Change in Debt Subject to Limit:</b>												
Change in gross Federal debt .....	1,235.4	1,586.7	1,197.1	952.0	926.7	964.9	934.6	918.9	906.9	924.4	931.4	932.2
Less: increase (+) or decrease (-) in Federal debt not subject to limit .....	-1.0	-0.7	-1.1	-0.8	-0.8	-1.8	-1.1	-1.0	-1.2	-1.2	-1.9	-1.8
Less: change in adjustment for discount and premium <sup>3</sup> ...	0.7	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total, change in debt subject to limit .....</b>	<b>1,235.7</b>	<b>1,587.3</b>	<b>1,198.2</b>	<b>952.8</b>	<b>927.5</b>	<b>966.7</b>	<b>935.7</b>	<b>919.9</b>	<b>908.2</b>	<b>925.7</b>	<b>933.3</b>	<b>934.0</b>
<b>Memorandum:</b>												
Debt subject to statutory limit <sup>4</sup> .....	14,746.6	16,333.9	17,532.1	18,484.9	19,412.5	20,379.2	21,314.9	22,234.8	23,142.9	24,068.6	25,001.8	25,935.8

\* \$50 million or less.

<sup>1</sup> Includes Federal fund transactions that correspond to those presented in Table 6-2, but that are for Federal funds alone with respect to the public and trust funds.

<sup>2</sup> Includes trust fund holdings in other cash assets and changes in the investments of the National Railroad Retirement Investment Trust in non-Federal securities.

<sup>3</sup> Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds).

<sup>4</sup> The statutory debt limit is \$16,394 billion, as increased after January 27, 2012.

ue of the dollar and further increasing interest rates on non-Federal, as well as Treasury, debt. In addition, the Federal Government would be forced to delay or discontinue payments on its broad range of obligations, including Social Security and other payments to individuals, Medicaid and other grant payments to States, individual and corporate tax refunds, Federal employee salaries, payments to vendors and contractors, and other obligations.

The debt subject to limit is estimated to increase to \$16,334 billion by the end of 2012 and to \$17,532 billion by the end of 2013.

**Federal funds financing and the change in debt subject to limit.**—The change in debt held by the public, as shown in Table 6–2, and the change in debt net of financial assets are determined primarily by the total Government deficit or surplus. The debt subject to limit, however, includes not only debt held by the public but also debt held by Government accounts. The change in debt subject to limit is therefore determined both by the factors that determine the total Government deficit or surplus and by the factors that determine the change in debt held by Government accounts. The effect of debt held by Government accounts on the total debt subject to limit can be seen in the second part of Table 6–2. The change in debt held by Government accounts results in 16 percent of the estimated total increase in debt subject to limit from 2012 through 2022.

The budget is composed of two groups of funds, Federal funds and trust funds. The Federal funds, in the main, are derived from tax receipts and borrowing and are used for the general purposes of the Government. The trust funds, on the other hand, are financed by taxes or other receipts dedicated by law for specified purposes, such as for paying Social Security benefits or making grants to State governments for highway construction.<sup>21</sup>

A Federal funds deficit must generally be financed by borrowing, which can be done either by selling securities to the public or by issuing securities to Government accounts that are not within the Federal funds group. Federal funds borrowing consists almost entirely of Treasury securities that are subject to the statutory debt limit. Very little debt subject to statutory limit has been issued for reasons except to finance the Federal funds deficit. The change in debt subject to limit is therefore determined primarily by the Federal funds deficit, which is equal to the difference between the total Government deficit or surplus and the trust fund surplus. Trust fund surpluses are almost entirely invested in securities subject to the debt limit, and trust funds hold most of the debt held by Government accounts. The trust fund surplus reduces the total budget deficit or increases the total budget surplus, decreasing the need to borrow from the public or increasing the ability to repay borrowing from the public. When the trust fund surplus is invested in Federal securities, the debt held by Government accounts increases, offsetting the decrease in debt held by the public by an equal amount. Thus, there is no net effect on gross Federal debt.

Table 6–6 derives the change in debt subject to limit. In 2011 the Federal funds deficit was \$1,397 billion, and other factors decreased financing requirements by \$189 billion. The change in the Treasury operating cash balance reduced financing requirements by \$252 billion, while the net financing disbursements of credit financing accounts increased financing requirements by \$58 billion. Other factors increased financing requirements by \$5 billion. In addition, special funds and revolving funds, which are part of the Federal funds group, invested a net of \$27 billion in Treasury securities. An adjustment is also made for the difference between the trust fund surplus or deficit and the trust funds' investment or disinvestment in Federal securities (including the changes in the National Railroad Retirement Investment Trust's investments in non-Federal securities). As a net result of all these factors, \$1,235 billion in financing was required, increasing gross Federal debt by that amount. Since Federal debt not subject to limit decreased by \$1 billion and the adjustment for discount and premium changed by \$1 billion, the debt subject to limit increased by \$1,236 billion, while debt held by the public increased by \$1,109 billion.

Debt subject to limit is estimated to increase by \$1,587 billion in 2012 and by \$1,198 billion in 2013. The projected increases in the debt subject to limit are caused by the continued Federal funds deficit, supplemented by the other factors shown in Table 6–6. While debt held by the public increases by \$5,585 billion from the end of 2011 through 2017, debt subject to limit increases by \$6,568 billion.

### Foreign Holdings of Federal Debt

During most of American history, the Federal debt was held almost entirely by individuals and institutions within the United States. In the late 1960s, foreign holdings were just over \$10 billion, less than 5 percent of the total Federal debt held by the public. Foreign holdings began to grow significantly starting in 1970 and now represent almost half of outstanding debt. This increase has been almost entirely due to decisions by foreign central banks, corporations, and individuals, rather than the direct marketing of these securities to foreign residents.

Foreign holdings of Federal debt are presented in Table 6–7. At the end of 2011, foreign holdings of Treasury debt were \$4,660 billion, which was 46 percent of the total debt held by the public.<sup>22</sup> Foreign central banks and foreign official institutions owned 75 percent of the foreign holdings of Federal debt; private investors owned nearly all the rest. At the end of 2011, the nations holding the largest shares of U.S. Federal debt were China, which held 25 percent of all foreign holdings, Japan, which held 21 percent, and the United Kingdom, which held 9 percent. All of the foreign holdings of Federal debt are denominated in dollars.

Although the amount of foreign holdings of Federal debt has grown greatly over this period, the proportion that foreign entities and individuals own, after increasing abruptly in the very early 1970s, remained about 15–20

<sup>21</sup> For further discussion of the trust funds and Federal funds groups, see Chapter 28, "Trust Funds and Federal Funds."

<sup>22</sup> The debt calculated by the Bureau of Economic Analysis, Department of Commerce, is different, though similar in size, because of a different method of valuing securities.

percent until the mid-1990s. During 1995–97, however, growth in foreign holdings accelerated, reaching 33 percent by the end of 1997. Foreign holdings of Federal debt resumed growth in the following decade, increasing from 34 percent at the end of 2002 to 42 percent at the end of 2004 and to 48 percent at the end of 2008. Foreign holdings were 48 percent at the end of 2010 and fell to 46 percent at the end of 2011. The increase in foreign holdings was about 30 percent of total Federal borrowing from the public in 2011 and 50 percent over the last five years.

Foreign holdings of Federal debt are around 25 percent of the foreign-owned assets in the United States, depending on the method of measuring total assets. The foreign purchases of Federal debt securities do not measure the full impact of the capital inflow from abroad on the market for Federal debt securities. The capital inflow supplies additional funds to the credit market generally, and thus affects the market for Federal debt. For example, the capital inflow includes deposits in U.S. financial intermediaries that themselves buy Federal debt.

### Federal, Federally Guaranteed, and Other Federally Assisted Borrowing

The Government's effects on the credit markets arise not only from its own borrowing but also from the di-

rect loans that it makes to the public and the provision of assistance to certain borrowing by the public. The Government guarantees various types of borrowing by individuals, businesses, and other non-Federal entities, thereby providing assistance to private credit markets. The Government is also assisting borrowing by States through the Build America Bonds program, which subsidizes the interest that States pay on such borrowing. In addition, the Government has established private corporations—Government-Sponsored Enterprises—to provide financial intermediation for specified public purposes; it exempts the interest on most State and local government debt from income tax; it permits mortgage interest to be deducted in calculating taxable income; and it insures the deposits of banks and thrift institutions, which themselves make loans.

Federal credit programs and other forms of assistance, including the substantial Government efforts to support the credit markets during the recent financial turmoil, are discussed in Chapter 23, "Credit and Insurance," in this volume. Detailed data are presented in tables at the end of that chapter.

**Table 6–7. FOREIGN HOLDINGS OF FEDERAL DEBT**

(Dollar amounts in billions)

Fiscal Year	Debt held by the public			Change in debt held by the public	
	Total	Foreign <sup>1</sup>	Percentage foreign	Total <sup>2</sup>	Foreign <sup>1</sup>
1965 .....	260.8	12.3	4.7	3.9	0.3
1970 .....	283.2	14.0	5.0	5.1	3.8
1975 .....	394.7	66.0	16.7	51.0	9.2
1980 .....	711.9	121.7	17.1	71.6	1.4
1985 .....	1,507.3	222.9	14.8	200.3	47.3
1990 .....	2,411.6	463.8	19.2	220.8	72.0
1995 .....	3,604.4	820.4	22.8	171.3	138.4
2000 .....	3,409.8	1,038.8	30.5	-222.6	-242.6
2005 .....	4,592.2	1,929.6	42.0	296.7	135.1
2006 .....	4,829.0	2,025.3	41.9	236.8	95.7
2007 .....	5,035.1	2,235.3	44.4	206.2	210.0
2008 .....	5,803.1	2,802.4	48.3	767.9	567.1
2009 .....	7,544.7	3,570.6	47.3	1,741.7	768.2
2010 .....	9,018.9	4,324.2	47.9	1,474.2	753.6
2011 .....	10,128.2	4,660.2	46.0	1,109.3	336.0

<sup>1</sup> Estimated by Treasury Department. These estimates exclude agency debt, the holdings of which are believed to be small. The data on foreign holdings are recorded by methods that are not fully comparable with the data on debt held by the public. Projections of foreign holdings are not available. The estimates include the effects of benchmark revisions in 1984, 1989, 1994, and 2000, and annual June benchmark revisions for 2002-2010.

<sup>2</sup> Change in debt held by the public is defined as equal to the change in debt held by the public from the beginning of the year to the end of the year.

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## PERFORMANCE AND MANAGEMENT

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## 7. DELIVERING A HIGH-PERFORMANCE GOVERNMENT

The work of the Federal Government has a real effect on people's lives – on small business-owners who need loans, on young people who want to go to college, on the men and women in our Armed Forces who need the best resources when in uniform and who, after they have served, deserve the benefits they earned. Whether protecting individuals and communities, modernizing infrastructure, investing in our children, or taking care of the most vulnerable, the American people deserve a highly effective government.

The Nation's current fiscal situation makes it more important than ever for government agencies to use taxpayer money wisely to achieve more mission for the money. Building a government that works smarter, better, and more efficiently to deliver results for the American people is a cornerstone of this Administration. This chapter discusses the Administration's approach to improving the performance of the Federal Government, progress of this effort, challenges remaining, and the path forward.

### Driving Federal Performance

We must use taxpayer dollars in the most effective and efficient ways we can, continually searching for smarter ways to serve the American people, businesses, and communities. A critical part of our effort is creating a culture of continual performance improvement where Federal agencies constantly strive to improve the quality of Americans' lives and find lower-cost ways to achieve positive outcomes.

The Administration's approach to delivering more effective and efficient government is straightforward, and builds on a careful examination of best management practices in the Federal Government, State and local governments, other countries, and businesses (described in the President's 2011 and 2012 Budgets). The Administration has built on these lessons learned, and the groundwork established by Congress and previous Administrations. This approach rests on three mutually reinforcing practices.

1. **Choose Areas of Focus and Clear Goals.** Leaders at all levels of the organization choose a limited number of areas of focus that have high potential to advance the well-being of the American people, cut the costs of delivery, or both. Where goals are likely to accelerate progress, leaders set clear, ambitious goals for outcome-focused and management priorities. For each area of focus, senior officials responsible for leading change are clearly identified and goals are clearly communicated to employees, delivery partners, and the public.
2. **Measure and Analyze Performance.** Agencies measure, analyze, and discuss performance infor-

mation to reinforce priorities, motivate action, and illuminate a path to improvement. They analyze data to find problems to fix, successful practices to spread, and the root causes of both. Armed with this understanding, they take actions to achieve better outcomes and cut the costs of delivery. Agencies also communicate goals, measurements, progress, and strategies to enlist external ideas, expertise, and assistance to improve performance and boost accountability.

3. **Deliver Better Results with Frequent, Data-Driven Reviews.** Leaders conduct frequent, in-depth performance reviews to drive progress on priorities. They review progress with those involved in implementation and adjust agency action quickly, as needed, to improve outcomes and reduce costs.

### Progress on Agency Priorities

The Administration's performance management approach is fueling progress on performance and productivity. Federal agencies are widely adopting these performance improvement practices and beginning to see changes on the ground. Leadership engagement, not just in goal-setting but in running frequent progress reviews to identify actions an agency can take to improve results, is on the rise across the Federal government. At the same time, agencies are learning how outcome-focused goals can help them break down organizational barriers, leading to better results than one agency can achieve on its own. As described in "Reducing Crime on Indian Reservations" on the following page, efforts at the Department of Interior to reduce crime on Indian reservations exemplify how these practices can coalesce to produce breakthrough performance.

Performance results like this are not limited to Interior; other agencies are also making great progress on their mission-focused priorities, some of which they identified as two-year Agency Priority Goals (introduced as High Priority Performance Goals) in the 2011 Budget.

#### *Streamlining Student Loans and Strengthening Teacher Evaluation Systems*

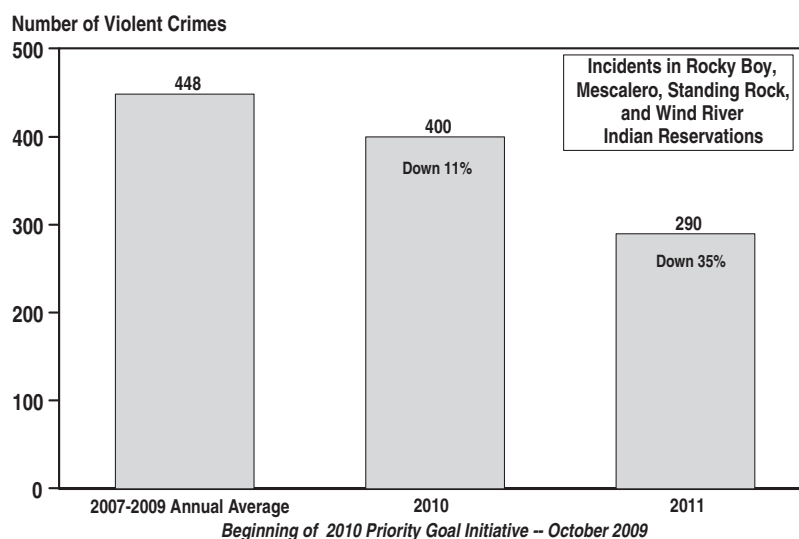
The Department of Education (Education) set a goal that all participating higher education institutions and loan servicers will be operationally ready to originate and service Federal Direct Student Loans through an efficient and effective student aid delivery system with simplified applications and minimal disruption to students. Within six months of the enactment of the Student Aid and Fiscal Responsibility Act (SAFRA), Education successfully moved to making students loans directly instead of hav-

### REDUCING CRIME ON INDIAN RESERVATIONS

High crime rates on some Indian reservations have long been a public concern, especially to the Native American community at large. The Department of the Interior's (Interior) pilot program to reduce crime on Indian reservations demonstrates how transformative it can be when an agency adopts a goal that matters to a community, takes actions to address the problem, regularly measures and reviews relevant data to see if change is happening, and engages the local community in every aspect of the effort. To seek solutions to this long-standing issue – but given tough constraints on its budget – Interior started a pilot program to test and identify effective crime reduction strategies on Indian lands. In the 2011 Budget, Interior set an agency High Priority Performance Goal to reduce crime by at least 5 percent on four reservations with some of the highest crime rates.

When this goal was set, most considered it ambitious; Interior had never before adopted a crime reduction goal and does not control many of the factors that affect the crime rate. Nevertheless, by the end of 2011, the initiative far exceeded its goal, reducing violent crime, on average, by a remarkable 35 percent across all four reservations, with crime going down on three of the four.

**Chart 7-1. Safe Indian Communities Priority Goal**



The importance and resonance of the goal won the cooperation of law enforcement partners and the enthusiasm of the local communities. This enabled a comprehensive strategy that involved community policing, tactical deployment, and inter-agency and intergovernmental partnerships between the Federal Bureau of Investigations (FBI), Department of Justice (DOJ), and the tribal police departments. The number of Indian country and DOJ officers on the ground was doubled and the number of law enforcement officers who received basic training increased ten-fold. Interior also supported officer-initiated programs to help victims and their families along with programs to strengthen community relationships with law enforcement. Community-launched innovations also played a role, such as an initiative on Rocky Boy's Reservation in Montana to reduce juvenile delinquency and criminal behavior.

Recognizing the importance of fresh and actionable data, Interior has now established a computer-aided system to help analyze crime data, identify crime trends, and report criminal offenses. These data and trend analyses were used to allocate resources and to evaluate law enforcement and community policing strategies.

The results strongly affirm the value of a data-based, goal-oriented approach that empowers local officials to drive change. In the next two years, Interior is seeking to spread this success, starting with a replication demonstration at two new reservations, while continuing efforts on the original four reservations.

ing third party lenders make them. This lending approach serves students better and, according to Congressional Budget Office estimates, will save taxpayers more than \$60 billion over ten years. Education is also supporting and encouraging states to strengthen teacher evaluation systems given the evidence that teacher effectiveness contributes more to improving student academic outcomes

than any other school characteristic. Education has made considerable progress – forty-one states adopted such systems over the last two years.

#### **Improving Health and Well-Being**

To improve not just the education of students but other aspects of their well-being, the Department of Agriculture

(USDA) set a goal to partner with local schools, propose national standards, and take other actions that will result in improved quality of food sold in schools throughout the school day. Since 2009, USDA has signed up over 1600 more schools for its Healthier US School Challenge, a program that certifies schools as meeting rigorous quality standards for the food they offer. In addition, toward its goal of improving the availability and accessibility of health insurance coverage by increasing enrollment of eligible children in Children's Health Insurance Program (CHIP) by 9 percent over the 2008 baseline and increasing enrollment of eligible children in Medicaid by 11 percent over the 2008 baseline by the end of FY 2011, the Department of Health and Human Services (HHS) enrolled an additional 4.8 million children in the CHIP and Medicaid from 2008 to 2010, thus providing greater access to health care.

Agencies are working to improve the well-being of adults, as well. To save lives and tens of billions of dollars in Medicare and Medicaid costs, HHS launched the Partnership for Patients and set a new Priority Goal to reduce the rate of hospital acquired conditions and hospital readmissions. More than 3,100 hospitals and nearly 3,500 other partners, such as physician, nurses groups, and employers, have already joined this initiative. HHS has adopted a 2012-2013 Priority Goal focusing on reducing hospital associated infections reflecting this effort. Working in conjunction with the Interagency Council on Homelessness, the Departments of Veterans Affairs (VA) and Housing and Urban Development (HUD) set a goal to reduce the population of homeless veterans to 59,000 by June 2012, and have reduced the population of homeless veterans from 75,609 in January 2009 to 67,495 in January 2011. Building upon this progress, VA and HUD set a Priority Goal to house another 24,400 Veterans by the end of 2013 on the way to eliminating veteran homelessness by 2015.

### ***Energy Savings for Low-Income Families and Clean Energy Production***

The Department of Energy (Energy) and the Department of Housing and Urban Development (HUD) set a joint goal to enable the cost-effective energy retrofits of 1.2 million housing units by the end of 2013. By supporting energy conservation in over 750,000 homes of lower income and middle class families, Energy has already helped reduce energy costs, on average, by over \$400 per home each year. These changes have reduced the overall annual energy consumption by 20 percent for these homes, but also cut annual greenhouse gas emissions nearly 2.0 million metric tons. HUD similarly reduced energy consumption at 120,000 HUD-assisted housing units. Energy, in the same period, has invested in reducing the cost of batteries for electric drive vehicles to help increase the market for Plug-In Hybrids and All-Electric Vehicles.

Not surprisingly, because agencies were asked to set stretch targets to reach higher levels of performance, agencies did not attain every Priority Goal. In fact, if every target had been met it would indicate that the goals

were insufficiently ambitious - not bold enough to spur the sort of innovation and focus associated with challenging but realistic targets. The experience of Interior on its energy goal illustrates not just the performance-improving power of a stretch target but also of the Administration's emphasis on performance progress, rather than goal attainment for its own sake, to create a healthy performance-improving dynamic across the Federal government. Interior set a goal to authorize 9000 megawatts of solar, wind, and geothermal energy projects by the end of 2011. It did not reach its target, but did approve more than 6,000 megawatts of new renewable energy capacity on Interior land - enough to power, when fully developed, more than 1 million homes. Prior to setting this goal in October 2009, Interior had approved only a small number of projects like this. It had a slower than expected start-up because it had to move along a learning curve, yet by setting a stretch goal in this area Interior was highly successful - permitting more than 6,000 megawatts in 2 years. To continue progress in this area, Interior set a new Priority Goal to increase the approved capacity for production of renewable energy resources to 11,000 megawatts by the end of 2013.

### ***Strengthening Small and Medium-Sized Businesses***

The Small Business Administration (SBA) increased small business access to capital by growing the number of active lending partners and bringing 1,200 new or returning lenders into the 7(a) loan program. Loans approved by active lenders reached nearly \$20 million in 2011, up from \$12 million in 2010 and \$9 million in 2009. The Department of Commerce (Commerce) increased the number of small and medium-sized enterprises that entered a 2nd or additional market, not quite reaching its 2011 target but nonetheless up 20% between 2009 to 2011 (over 3000 businesses in 2011) despite staffing decreases and modest global economic growth in that period. Commerce has adopted a new 2012-2013 Priority Goal to expand its export activity, one of many strategies outlined in the National Export Initiative (NEI) report that contribute to the President's directive to double U.S. exports by 2014, a new Cross-Agency Priority Goal.

### ***Improving Water Quality and Aquatic Health***

Commerce has also worked closely with Regional Fishery Management Councils (RFMCs) to end and prevent overfishing. The agency set a goal to reduce the number of stocks subject to overfishing to zero by the end of 2011; improve the Fish Stock Sustainability Index (FSSI) to 586 by the end of 2011; and ensure that all 46 Federal fishery management plans have required catch limits to end overfishing in place by the end of 2011. By the end of December 2011, all stocks subject to overfishing had annual catch limits in place, and the Fish Stock Sustainability Index rose from 565.5 (in 2009) to 598.5. At the same time, the effort to ensure all Fishery Management Plans have annual catch limits is moving forward at a steady pace. Forty Fishery Management Plans have been completed as of December 31, 2011 and

six will be completed in time to be effective for the respective 2012 fishing years.

In other agency efforts related to aquatic health, the Corps of Engineers completed 27 projects restoring over 12,000 acres of aquatic habitat, most of it to improve the Upper Mississippi River, surpassing its goal of 10,300 acres. In a separate effort to improve the health of the Nation's waters, the Environmental Protection Agency (EPA) focused approximately 60% of its water quality enforcement actions on facilities discharging to waters that do not meet water quality standards, up from 32 percent in 2009 and well above the agency's goal of at least 37 percent. This resulted in reductions in harmful discharges from 195 facilities into these waters.

### ***National Security***

One of the Department of State's goals is to improve global controls to prevent the spread of nuclear weapons and enable the secure, peaceful use of nuclear energy. The 2010 Nuclear Security Summit moved the U.S. closer to this goal by strengthening international cooperation to control weapons-usable nuclear materials and prevent nuclear terrorism - actions critical to our own national security. Attending states pledged specific national actions to prevent terrorists, criminals, and proliferators from acquiring nuclear materials, ranging from ratification of a convention to extremely complicated steps converting reactors from the use of highly-enriched to low-enriched uranium. The number of countries ratifying the Amendment to the Convention on Physical Protection of Nuclear Materials (CPPNM) is now at 52, up from 20 at the end of 2008.

### ***Improving Customer Service and Saving Taxpayer Dollars***

Both the Department of the Treasury (Treasury) and the Social Security Administration (SSA) are making it easier for their customers, while saving taxpayer dollars. Treasury has saved over \$63.9 million by encouraging taxpayers to file electronically - increasing the electronic filing rate for individual tax returns to 76.9 percent in the 2011 season, up from 66 percent in 2009. SSA increased online retirement benefit applications from single digits in most prior years to the highest usage ever - 41 percent in FY 2011. These online services reduce the time employees spend handling applications, which frees them to handle other work. SSA has achieved this success while maintaining high customer satisfaction. The online claim application is one of three SSA electronic services that consistently tops the American Customer Satisfaction Index survey, rating higher than popular private sector electronic services.

Despite this progress, some agencies did not meet their goals because of fiscal pressures. While the Priority Goals were intended to be budget neutral, they were not budget independent. For example, in the President's 2011 Budget the Social Security Administration had a target for completing 3.409 million initial disability claims. However, Congress appropriated \$1 billion less than the President requested and the agency could not complete all of the

work related to their disability programs. To compensate for this, SSA decreased its target for the number of initial disability claims completed to 3.273 million. The agency was able to leverage technology to identify and fast-track the most severe disability claims. From October 2010 through June 2011, the agency fast-tracked over 108,000 initial disability cases, or 4.6 percent of all disability claims filed through the two fast-track processes. Learning from this experience, SSA continues to refine the predictive model and selection software to maximize capacity and accurately identify these cases.

More complete performance updates on the 2010-2011 Agency Priority Goals and other agency performance goals for the 15 Cabinet agencies and nine other large departments can be found at each agency's Performance.gov home page (click on the annual performance plans and reports button or access all 24 agency plans and reports at <http://my-goals.performance.gov/agency/plans>). Updates on government-wide management priorities established under the Accountable Government Initiative can also be found at Performance.gov under the Area of Focus tabs.

### ***Building a Culture of Continual Performance Improvement***

Agency heads have charged their leadership teams with transforming the way their agencies use goals, measurement, analysis, and data-driven discussions to drive performance improvements. This transformation is increasingly evident. As discussed above, agencies are using goals not just as words on the pages of reports required by Congress or OMB, but instead as simple, powerful tools for communicating priorities and focusing agency action. Complementing progress on the Agency Priority Goals, this budget continues efforts to integrate performance more directly into the use of traditional government tools such as grants. Race to the Top grants, for example, are being used to enlist state and local education leaders willing to commit to rigorous standards and high-quality assessments, build better data systems to inform decisions and improve instruction, attract and retain great teachers, and adopt the most promising evidence-based practices to turn-around the lowest performing schools. Similarly, HHS has established stronger performance expectations for its early childhood grants, requiring Head Start grantees that fail to meet rigorous benchmarks to re-compete for continued Federal funding to help children from low-income families achieve their full potential.

As discussed in AP Chapter 8: Program Evaluation and Data Analytics, a number of agencies have begun to use tiered grant-funding to encourage state, local, and not-for-profit delivery partners to improve performance in three complementary ways: scale, validate, and develop. Scale-up grants promote adoption of effective practices identified through objective searches of the evidence and experience. Validation grants support replication demonstrations before scale-up to test if practices effective in one location or situation can be replicated in others. Smaller grants support development and testing of



new high-potential practices. In addition, the President's Budget proposes Pay for Success pilots.

### Looking Forward

Over the next year, the Administration will continue to build upon these efforts to deliver more value for the taxpayer's dollar. It will continue to strengthen its approach of using goals to communicate priorities, focus agency actions on innovative solutions, support cross-agency collaboration, and enlist external ideas and assistance. The Administration will continue to measure and analyze to find lower cost ways to deliver more mission for the money. It will set ambitious goals to stimulate innovation and motivate effort, and communicate progress and strategies to boost accountability to the public. Increasingly, it will reach out to field employees, other offices, other agencies, and delivery partners to engage them in regular data-driven reviews to find smarter ways to accomplish priority objectives. And, it will strengthen networks, within and beyond government, to tackle common problems and pursue shared areas of opportunity.

### Agency Priority Goals

Major Federal agencies have set near-term Agency Priority Goals for 2012-2013, which are a subset of agencies' broader goals and objectives. Over half of the agency goals, such as Interior's goal to permit renewable energy on Interior land, continue Agency Priority Goals set with the 2011 Budget, but update the targets. Other goals address a problem tackled with a 2010-2011 goal, but frame the goals in ways more likely to accelerate progress. For example, an HHS goal expands from tracking the percentage of Recovery Act funded communities that adopt smoke-free policies to a goal to reduce nation-wide cigarette consumption per capita. Still other goals expand into areas previously untouched by previous Agency Priority Goals, such as the Commerce Department's weather-forecasting goal.

The full list of Agency Priority Goals can be found at [www.Goals.Performance.gov](http://www.Goals.Performance.gov) and are sortable by agency and by theme. Agency Priority Goals are presented this year in the context of agency strategic goals and objectives to show how Agency Priority Goals fit within the context of agencies' longer term strategic goals, and each agency's full set of performance objectives. In addition, to make the goals more understandable to the public, each goal includes an "Impact Statement" that describes generally what the goal is trying to accomplish, paired with a time-specific target to guide agency action.

### Cross-Agency Priority Goals

In addition, the Administration has adopted interim Cross-Agency Priority (CAP) Goals. This Administration, Congress, the U.S. Government Accountability Office (GAO), and others have long recognized that government often tackles problems in stove-piped or fragmented ways that can prevent problems from being effectively addressed. To enhance progress in areas needing more cross-government collaboration, the GPRA Modernization Act

requires OMB to establish a limited number of CAP Goals for both crosscutting policy and government-wide management areas. The goals are to be revised or updated at least every four years, starting with the 2015 Budget. At the same time, the law instructs the Administration to set interim CAP goals concurrent with the 2013 Budget.

To develop the interim CAP Goals, OMB and the Performance Improvement Council worked with senior policy officials and agencies, and consulted with Congress. GAO studies were also considered in selecting CAP Goals. Emphasis was placed on choosing goals that reflect Presidential priorities and where increased cross-agency coordination and regular review are expected to speed progress. The limited number of interim CAP Goals therefore reflect a subset of Presidential priorities and opportunities for increased cross-agency collaboration. CAP Goals are complemented by other cross-agency coordination and goal-setting efforts, such as those of the Federal Food Safety Working Group and the Office of National Drug Control Policy (ONDCP). ONDCP has established government-wide goals and measurements to combat the public health and safety consequences of drug use, and coordinates inter-agency efforts to cut drug use among youth by 15 percent, drug-induced deaths and drug-related morbidity by 15 percent, and drugged driving by 10 percent in five years. The National Drug Control Strategy is available at <http://www.whitehouse.gov/ondcp/2011-national-drug-control-strategy>. The Federal Food Safety Working Group issued an update on its progress since its March 2009 formation at [http://www.whitehouse.gov/sites/default/files/fswg\\_report\\_final.pdf](http://www.whitehouse.gov/sites/default/files/fswg_report_final.pdf).

The Administration set interim CAP Goals in the following areas:

- Science, Technology, Engineering, and Math (STEM) Education
- Veterans Career Readiness
- Broadband
- Entrepreneurship and Small Businesses
- Energy Efficiency
- Exports
- Job Training
- Cybersecurity
- Sustainability
- Financial Management
- Human Capital Management
- Information Technology Management
- Procurement and Acquisition Management
- Real Property Management

The interim CAP Goals can be found at [www.Goals.Performance.gov](http://www.Goals.Performance.gov). The website, which comprises the Federal performance plan, is the beginning of a broader transition to providing the public more dynamic, useful, and current performance information. Progress on each Priority Goal will be published through a central website starting in the fall of 2012.

### Frequent Data-Driven Reviews

For each Agency Priority Goal, the agency head or Chief Operating Officer (COO), often the Deputy Secretary, will continue running data-driven performance reviews

on their Priority Goals at least once a quarter. Some COOs also run quarterly performance reviews with their Departmental components - agencies, bureaus, or programs. At the same time, leaders of individual components, such as the heads of the FBI, Customs and Border Patrol, Federal Emergency Management Agency, and the Food and Drug Administration, are running their own frequent data-driven reviews. OMB, with support from the Performance Improvement Council, will initiate progress reviews on CAP Goals later this year.

### ***Producing Results for the American People***

In the coming year, the Administration will continue to develop tools and offer services to strengthen agency performance improvement capacity and to foster inter-agency networks to facilitate expertise and data sharing, co-investment, and learning. It will strengthen a working group begun in 2011 to help agencies improve and benchmark their data-driven progress reviews. The Administration will continue to foster inter-agency networks, such as the Benefits Processing Working Group,

launched in 2010, and will also work to launch additional networks to develop measures for other common government functions, such as reducing the number of undesirable incidents and their associated costs. Additionally, the Administration will develop training opportunities and career pathways to strengthen performance improvement skills and capacity across the Federal government.

The Administration is strongly committed to responding to the President's charge to deliver a government that works, a government that is smarter, leaner, and more effective, one that produces tangible results all around us – in a small business opening its doors, more homes becoming energy-efficient, new wind turbines generating clean renewable energy, healthier children, better served veterans, and falling crime rates. Leadership engagement, clear goals, measurement, analysis of progress, and frequent progress reviews to find and promote what works and fix or eliminate what does not are keys to fulfilling that commitment to improve the lives of the American people.

## 8. PROGRAM EVALUATION AND DATA ANALYTICS

The Administration is committed to using taxpayer dollars efficiently and effectively. Central to that commitment is a culture where agencies constantly ask, and try to answer, questions that help them find, implement, spread, and sustain effective programs and practices; find and fix or eliminate ineffective ones; test promising programs and practices to see if they are effective and can be replicated; and find lower-cost ways to achieve positive impacts. The Federal fiscal situation necessitates doing more with less, not only to reduce budget deficits, but also to build confidence that Americans are receiving maximum value for their hard-earned tax dollars. It is therefore critical to apply an evidence-based approach to government management that utilizes rigorous methods appropriate to the situation, learns from experience, and is open to experimentation. This application requires selecting and implementing promising policies, programs, and strategies, monitoring of their implementation, evaluating their effectiveness, and adapting them over time to meet emerging challenges informed by ongoing measures of the well-being of Americans and the Nation.

One of the challenges to evidence-based policy-making is that it is sometimes hard to say whether a program is working well or not. Historically, evaluations have been an afterthought when programs are designed, and once a program has been in place for a while, building a constituency for rigorous evaluation is hard. Further, the use of data and evaluation on an ongoing basis to manage and improve programs is rare. The Administration is committed to addressing this problem.

This Administration is strongly encouraging appropriately rigorous evaluations and data analytics to determine the impact of programs and practices on outcomes, complementing the performance measurement and management practices described in chapter 7, “Delivering a High-Performance Government”, in this volume. In many policy debates, stakeholders come to the table with deep disagreements about the effectiveness or ineffectiveness of particular interventions. Evaluations that are sufficiently rigorous, relatively straightforward, and free from political interference are especially valuable in such circumstances.

Evaluations do what performance measurement, alone, cannot. Evaluations determine whether programs produce outcomes superior to alternative policy choices, or not putting into place a policy at all. This is in contrast with performance measurement, which tracks implementation and progress toward intended program outcomes, but typically does not compare outcomes to alternative programs or the status quo. If a particular job training approach has a high job placement rate, is it because it is effective or because it attracts those easiest to place in jobs? An evaluation would compare the employment of

participants in the job training program to comparable individuals who did not participate in the program in order to isolate the effects of the training from other factors. Evaluations can answer a wide-range of germane questions such as whether workers are safer in facilities that are inspected more frequently, whether one option for turning around a low-performing school is more effective than another, whether outcomes for families are substantially improved in neighborhoods that receive intensive services, whether no-fee debit cards increase savings among the unbanked, and whether re-employment services are cost-effective.

Evaluation is one component of the evidence infrastructure that plays a role in a wide range of decision-making. The best government programs embrace a culture where broad statistical data series, performance and other measurement, evaluation, and other data analytics are regularly used and complement one another. Agencies use broad statistical data series to understand social and economic conditions of the populations to be served, and to inform the design of new or revised policies. They use performance measurement to monitor the implementation of their policies, to detect promising practices for improving performance and to identify challenges. They use descriptive evidence about program recipients, program stakeholders, and community conditions to target their resources more precisely to areas of high need and opportunity. Regression analyses of administrative data can, for example, shed light on how to better match recipients with appropriate services. Rigorous evaluations using experimental or quasi-experimental methods identify the effects of programs in situations where doing so is difficult using other methods; and rigorous qualitative evidence complements what can be learned from quantitative evidence and provides greater insight into how programs and practices can be implemented more and less successfully.

Developing and supporting the use of data and evaluation in decision-making requires a coordinated effort between those charged with managing the operations of a program and those responsible for using data and evaluation to understand a program’s effectiveness. It requires consistent messages from multiple leaders in an agency to ensure that evidence is valued, collected or built, analyzed, understood, and appropriately acted upon. No one individual in an agency has the knowledge and skills necessary to develop research designs that address actionable questions, understand different types of evidence, interpret evidence, and develop and implement effective, evidence-based practices. Rather, it takes a leadership team, at the agency level, to oversee these efforts and to build and sustain a culture of learning. Complementing this team with a team of “implementers” at the program

level encourages the use of evidence and data so that it will filter down into program management.

Who is on these teams and how their work is divided depends upon the specific needs, personnel, and structure of a given agency. Success of these teams depends on including leadership at the agency and bureau level capable of supporting and requiring programs' use of data and evaluation in program operations. This leadership team, working together with OMB and Congress, can make sure that the right questions are being asked about the program's effectiveness and its operations. Program managers are responsible for creating a culture where all operational decisions and internal and external communications of progress are based on evidence and data. In order to do so, the program managers need a team of both data analysts and evaluators. These individuals can provide the data and analysis packaged in a way that helps inform the program's operational and policy decisions, including understanding the different types of evidence available and its implications for decisions, as well as identifying the need for new descriptive data and evaluation studies.

The Administration and Congress have made considerable progress in making Federal decision-making more based in data and evidence. Chapter 7, "Delivering a High-Performance Government", in this volume discusses how Administration efforts are helping focus agencies on setting high-priority goals and measuring their progress on those goals.

In the area of evaluation, the Administration has moved to adopt a multi-tiered approach to evidence-based funding for new grant-based initiatives targeted towards education interventions, teenage pregnancy prevention, social innovations, home visitations for new parents, workforce interventions, and science, technology, engineering, and math programs. The initiatives offer the most funding to programs and practices supported by the strongest evidence. Programs with some, but not as much, supportive evidence also receive significant funding, the condition that the programs will be rigorously evaluated going forward. Over time, the Administration anticipates that some second-tier programs will move to the first tier as they prove more promising and cost-effective than other programs. Finally, agencies are encouraged to innovate and test ideas with strong potential—ideas supported by preliminary research findings or reasonable hypotheses. At all levels, it is important to build implementation evidence into this multi-tiered approach so that we understand how best to scale successful programs and to create more and better program options.

A good example of this approach—in which new or expanded programs have evaluation "baked into their DNA"—is the Department of Education's Invest in Innovation Fund (i3). The i3 fund invests in high-impact, potentially transformative education interventions—ranging from new ideas with huge potential to those that have proven their effectiveness and are ready to be scaled up. Whether applicants to i3 are eligible for funding to develop, validate, or scale up their program, and therefore how much funding they are eligible to receive, depends

on the strength of the existing evidence of the program's effectiveness, the magnitude of the impact the evidence demonstrates the program is likely to have, and the program's readiness for scaling up.

This multi-tiered structure provides objective criteria to inform decisions about programs and practices in which to invest and create the right incentives for the future. Organizations understand that to be considered for significant funding, they must provide credible evaluation results that show promise, and, before that evidence is available, be ready to subject their models to analysis. As more models move into the top tier, this approach creates pressure on all the top-tier models to compete to improve their effectiveness to continue to receive support. The Administration is also working with agencies to adopt common evidence standards (where such common standards are appropriate) and to develop more robust "what works" repositories across a wide range of programs.

The Administration has also championed the Pay for Success model. In the Pay for Success model, philanthropic and other private investors provide up-front funding for services for a target population to achieve specific outcomes that are measured in terms of improved lives and reduced costs. The government pays only if agreed-upon goals are achieved. Pay for Success allows the government to better partner with and leverage the resources of philanthropic and other investors to help drive evidence-based innovation and invest in what works.

The Pay for Success model is particularly well-suited to cost-effective interventions that produce government savings, since those savings can be used to pay for results. For example, effective prisoner re-entry interventions can reduce future prison costs, and a portion of those savings can be used to pay back the investors. More effective workforce systems could increase job placement and improve job retention and again, some savings may be used to repay the investments. The Administration is promoting the Pay for Success model in several Federal grant programs and is helping several states and localities that are seeking to implement the Pay for Success model. In addition, the Administration is exploring ways in which appropriations bills can better account for programs that generate savings for other programs.

The Administration supports evaluations with rigorous research designs that address questions critical to program design, and supports strengthened agency capacity to support such evaluations, even in tight budget times. The Recovery Act launched a number of evaluations across the Federal Government on such topics as the effects of different rent formulas on housing assistance recipients, the effects of smart grid meters on residential electricity usage, and the effects of extended unemployment insurance benefit programs on employment outcomes. Even with scarce dollars, agencies continue to direct scarce dollars to evaluations to assure they are not funding programs without positive impacts, the biggest waste of all.

Research and evaluation are part of any comprehensive effort to use data and evidence to serve the American people in more cost-effective ways. So ideally the fund-



ing for research and evaluation would not be viewed as optional but rather as an essential element of running effective government programs. New funding for research and evaluation is only part of the Administration's efforts to re-invigorate evaluation activities across the Federal Government. The Administration is also working to build agency capacity for a robust evaluation and data analytics infrastructure, whether that is supporting an agency in standing up a central evaluation office, empowering existing evaluation offices, institutionalizing policies that lead to strong evaluations, helping spread effective procurement practices, or hiring evaluation and data analytics experts into key administrative positions.

Part of that evaluation and data analytics infrastructure is helping agencies make better use of administrative data. Administrative data, especially when linked across programs or to survey data, can sometimes make rigorous program evaluations much more informative and much less costly. Data from an early childhood program linked to the data from juvenile justice systems or K-16 educational systems shed light on the long-term effects of interventions in ways that would be cost-prohibitive in a long-term survey follow-up. Linking records from across programs also enables policy makers to better understand how families access combinations of government assistance programs, such as food assistance and unemployment insurance, during times of economic challenges. This sort of analysis is not evaluation, but is an incredibly important aspect of agency management – looking at available information to find patterns, relationships, anomalies, and other features to inform priority-setting, program design, and hypothesis formulation.

Moreover, when skilled data analysts have access to linked administrative data with appropriate privacy protections, the cost of additional policy-relevant research is extremely modest. The private sector is increasingly using such data analytics to drive decisions on how to allocate resources and better serve their customers. There is perhaps even greater potential in the public sector to make use of such analytics, although realizing this potential will also take a concerted effort to hire and retain skilled data analysts, increased attention to the multiple legal and policy contexts that make data access a continued challenge, and infrastructure investments that support this sort of analysis by more people across the organization.

In addition, an inter-agency working group is beginning to share best practices across the Federal Government and to discuss issues, such as how to do a better job disseminating evidence of what works, integrating cost-effectiveness analysis into evaluations, and making better use of administrative data for evaluation and other data analytics purposes. OMB is also building tools that should make it easier for agencies to make information available online about their completed and underway evaluations.

Rigorous evaluation will be a central component of several cross-agency initiatives designed to identify more cost-effective approaches to achieving positive outcomes for disadvantaged populations. These populations are often eligible for multiple services and benefits administered

by separate Federal and State agencies, which are poorly coordinated and governed by rules that stifle effective collaboration and innovation. In 2012, the Departments of Labor and Education will support joint pilots to test interventions and systemic reforms with the potential to improve education and employment outcomes at lower cost to taxpayers. The Departments of Education, Labor, and Health and Human Services and the Social Security Administration will launch a joint initiative to test interventions that improve outcomes for children with disabilities and their families, which may yield substantial savings through reduced long-term reliance on the Supplemental Security Income program and other public services. OMB's Partnership Fund for Program Integrity Innovation is testing promising solutions developed collaboratively by Federal agencies, States, and other stakeholders to improve payment accuracy, improve administrative efficiency, and enhance service delivery in benefit programs that serve overlapping populations. Evaluation of these pilots will help determine which strategies lead to better results at lower cost, allowing Federal and State governments to identify the most promising strategies that warrant expansion.

The Administration is committed to producing more and better empirical evidence. There is, however, perhaps an even greater need to promote greater demand for data and evidence in Federal decision-making processes. The process of setting high-priority goals and measuring progress towards meeting them is beginning to increase the demand for data, its analysis, and complementary evaluations, as leaders running frequent data-driven reviews to achieve progress on ambitious goals search for increasingly effective and cost-effective practices to speed progress toward the goals they have set.

State, local, and tribal governments face a similar need to prioritize programs that achieve the best results. One particularly interesting model is the Washington State Institute for Public Policy. The Institute provides a good example of how a centralized evaluation and research agency can conduct reviews of existing evaluation research to identify policies, practices, and strategies that are most likely to give taxpayers a return on their investment. It was created by the Washington state legislature to carry out practical, non-partisan research – at legislative direction – of importance to Washington State. The Institute has its own set of policy analysts and economists, specialists from universities, and consultants whom it engages to conduct policy analysis. It does a systematic review of evidence and has a methodology for comparing the relative return-on-investment of alternative interventions and presents the results in a straightforward, user-friendly manner. The Institute provides a potential model for Federal, state, local, and tribal government as well as for not-for-profit and for-profit organizations. An example of an assessment of the evidence for options to improve statewide outcomes in a variety of areas, including child maltreatment, crime, and education can be found at the Institute's website here: <http://www.wsipp.wa.gov/rpt-files/11-07-1201.pdf>.



The President has made it clear that policy decisions should be driven by evidence—evidence about what works and what does not and evidence that identifies the greatest needs and challenges. By instilling a culture of learning into Federal programs, the Administration will

build knowledge so that spending decisions are based not only on good intentions, but also on strong evidence that yield the highest social returns on carefully targeted investments.

## 9. BENEFIT-COST ANALYSIS

### I. INTRODUCTION

Federal Government policies and programs make use of our Nation's limited resources to achieve important social goals, including economic growth, job creation, education, national security, environmental protection, and public health. Many Federal programs require governmental expenditures, such as those funding early childhood education or job training. Moreover, many policies entail social expenditures that are not reflected in budget numbers. For example, environmental, energy efficiency, and workplace safety regulations impose compliance costs on the private sector. In all cases, the American people expect the Federal Government to design programs and policies to manage and allocate scarce fiscal resources prudently, and to ensure that programs achieve the maximum benefit to society and do not impose unjustified or excessive costs.

A crucial tool used by the Federal Government to achieve these objectives is benefit-cost analysis, which provides a systematic accounting of the social benefits and costs of Government policies. Executive Order 13563, issued in January 2011, makes a firm commitment to cost-benefit analysis and to ensuring that the benefits of regulations justify the costs. It states, among other things, that each agency must "use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible." It also states that agencies must "propose or adopt a regulation only upon a reasoned determination that its benefits justify its costs (recognizing that some benefits and costs are difficult to quantify.)"

The goal of benefit-cost analysis is to promote social welfare -- to ensure that the consequences of regulations are desirable on balance. The use of monetary equivalents does of course create numerous challenges, both conceptual and empirical; philosophers and economists have grappled with those challenges.<sup>1</sup> The translation of regulatory

<sup>1</sup> See Adler (2011). [Reference is to Matthew D. Adler, *Well-Being and Fair Distribution: Beyond Cost-Benefit Analysis*, Oxford University

consequences into monetary figures is meant to promote sensible comparisons, and should be understood as an administrable method for promoting that assessment. Other considerations, not subject to that translation, may also matter. As Executive Order 13563 also states, "each agency may consider (and discuss qualitatively) values that are difficult or impossible to quantify, including equity, human dignity, fairness, and distributive impacts."

The assessment of benefits and costs of a government policy are meant to offer a concrete description of the anticipated consequences of the policy. Such an accounting helps policymakers to design programs to be both efficient and effective and to avoid unnecessary or unjustified costs and burdens. That accounting also allows the American people to see the expected consequences of programs and to hold policymakers accountable for their actions.

As noted, quantification and monetization produce significant challenges, but serious efforts have been made to meet those challenges. Those efforts are continuing. Importantly, there is a close relationship between open government and benefit-cost analysis. Because analysis is often improved through transparency and public comments, transparency and consideration of benefits and costs are tightly connected in practice. Especially in a difficult economic period, it is important to analyze both benefits and costs and to take steps to eliminate unnecessary burdens, which may have adverse effects on job creation and growth. Executive Order 13563 calls for such steps with its efforts to discipline the flow of new regulations and its requirement of retrospective analysis of existing significant rules. Retrospective analysis has recently become a central part of the regulatory process as agencies identify outdated or redundant regulations and is helping to eliminate billions of dollars in regulatory burdens, in areas including environmental protection, transportation, labor, health care, and agriculture.

Press, 2011)]

### II. BENEFIT-COST ANALYSIS OF FEDERAL REGULATIONS

#### Overview of Benefit-Cost Analysis of Federal Regulation

For over three decades, benefit-cost analysis has played a critical role in the evaluation and design of significant Federal regulatory actions. While there are precursors in earlier administrations, the Reagan Administration was the first to establish a broad commitment to benefit-cost analysis in regulatory decision making through its Executive Order 12291. The Clinton Administration continued that commitment when it updated the principles

and processes governing regulatory review in Executive Order 12866, which continues in effect today. Executive Order 12866 requires executive agencies to catalogue and assess the benefits and costs of planned significant regulatory actions. It also requires agencies (1) to undertake regulatory action only on the basis of a "reasoned determination" that the benefits justify the costs and (2) to choose the regulatory approach that maximizes net social benefits, that is, benefits minus costs (unless the law governing the agency's action requires another approach). Executive Order 13563, issued in January 2011, reaffirms

the requirements of Executive Order 12866 and imposes a set of important additional requirements designed to promote sound analysis, to increase flexibility, to promote public participation, to harmonize conflicting and redundant requirements, and to ensure scientific integrity.

Operating under the broad framework established by Executive Orders 13563 and 12866, the Office of Management and Budget requires careful analysis of the costs and benefits of significant rules; identification of the approach that maximizes net benefits; detailed exploration of reasonable alternatives, alongside assessments of their costs and benefits; cost-effectiveness; and attention to unquantifiable benefits and costs as well as to distributive impacts. Central goals are to ensure that regulations will be effective in achieving their purposes and that they do not impose excessive costs. As noted, it is especially important to maximize net benefits, and to avoid unjustified burdens, in a period of economic difficulty. Notably, Executive Order 13563 specifically refers to “job creation,” and where feasible, agencies have recently devoted a great deal of attention to the anticipated job impacts (whether positive or negative) of regulations.

Under Executive Order 13563, agencies are authorized to consider “values that are difficult or impossible to quantify, including equity, human dignity, fairness, and distributive impacts.” In analyzing the effects of rules issued under the Americans with Disabilities Act, for example, it is legitimate to consider the dignitary values<sup>2</sup> associated with protection against discrimination, and also the equitable goals of the statute. Also, in eliminating the ban on entry into the United States of those who are HIV-positive, it is legitimate to consider dignitary and equitable factors that properly bear on the decision to eliminate that ban.

Reviewing agencies’ benefit-cost analyses and working with agencies to improve them, OMB provides a centralized repository of analytical expertise in its Office of Information and Regulatory Affairs (OIRA). OMB’s guidance to agencies on how to do benefit-cost analysis for proposed regulations is contained in its Circular A-4. A-4 directs agencies to specify the goal of a planned regulatory intervention, to consider a range of regulatory approaches for achieving that goal, to select the least burdensome approach, and to estimate the benefits and costs of each alternative considered. To the extent feasible, agencies are re-

quired to monetize benefits and costs, so that they are expressed in comparable units of value. This process enables the agency to identify (and generally to choose) the approach that maximizes the total net benefits to society generated by the rule. OIRA has recently issued a primer on Circular A-4 and also a response to Frequently Asked Questions.

For example, consider a regulation that sets standards for how quickly a truck’s brakes must be able to bring it to a stop.<sup>3</sup> A shorter stopping distance generates greater safety benefits, but also will impose larger compliance costs (if more effective brakes are more expensive). The agency should attempt to quantify both the safety benefits of reduced stopping distance and the costs of regulatory requirements. It should consider a range of stopping distances to determine the optimal one that maximizes net benefits. At such an optimal standard, making the stopping distance even shorter would impose compliance costs greater than additional safety benefits. At the same time, making the stopping distance longer than optimal results in a loss in safety benefits that is greater than the cost savings. Careful benefit-cost analysis enables the agency to determine the optimal standard. It helps to show that some approaches would be insufficient and that others would be excessive.

To be sure, quantification of the relevant variables, and monetization of those variables, can present serious challenges. OIRA and relevant agencies have developed a range of strategies for meeting those challenges; many of them are sketched in Circular A-4, and we take up one such approach below. Efforts continue to be made to improve current analyses and to disclose and test their underlying assumptions. In some cases, identification of costs and benefits will leave significant uncertainties. In some cases, the monetized figures will not be sufficient to settle the appropriate choice. But much of the time, an understanding of costs and benefits will rule out some possible courses of action, and will show where, and why, reasonable people might differ. Such an understanding will also help to identify the most effective courses of action and to eliminate unjustified costs and burdens—in the process potentially helping to promote competitiveness, innovation, job creation, and economic growth. (Recall that the purpose of cost-benefit analysis is to provide an administrable method for assessing the consequences of regulation.)

<sup>2</sup> Dignitary value is defined as “a concern for values inherent in or intrinsic to our common humanity—values such as autonomy, self-respect, or equality that might be nurtured or suppressed depending on the form that governmental decision making takes.” The definition is available at <http://digitalcommons.law.yale.edu/>.

<sup>3</sup> The National Highway Traffic Safety Administration issued a new safety standard for air brake systems to improve the stopping distance performance of trucks. See 49 CFR § 571.

**Table 9–1. ESTIMATES OF THE TOTAL ANNUAL BENEFITS AND COSTS OF MAJOR RULES REVIEWED BY OMB IN 2010**  
(In billions of 2001 dollars)

Rule	Agency	Benefits	Costs
Energy Conservation Standards for Small Electric Motors .....	DOE	0.7-0.8	0.2
Energy Efficiency Standards for Commercial Clothes Washers .....	DOE	0-0.1	<0.1
Energy Efficiency Standards for Pool Heaters and Direct Heating Equipment and Water Heaters .....	DOE	1.3-1.8	1.0-1.1
Medical Examination of Aliens--Removal of Human Immunodeficiency Virus (HIV) Infection from Definition of Communicable Disease of Public Health Significance ...	HHS	Not Estimated	<0.1
Regulations Restricting the Sale and Distribution of Cigarettes and Smokeless Tobacco to Protect Children and Adolescents .....	HHS	Not Estimated	Not Estimated
Use of Ozone-Depleting Substances; Removal of Essential Use Designations [Flunisolide, Triamcinolone, Metaproterenol, Pirbuterol, Albuterol and Ipratropium in Combination, Cromolyn, and Nedocromil] .....	HHS	Not Estimated	Not Estimated
Interim Final Rules under the Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008 .....	HHS/DOL/TREAS	Not Estimated	<0.1
Interim Final Rules for Group Health Plans and Health Insurance Issuers Relating to Dependent Coverage of Children to Age 26 under the Patient Protection and Affordable Care Act .....	HHS/DOL/TREAS	Not Estimated	<0.1
Interim Final Rules for Group Health Plans and Health Insurance Coverage Relating to Status as a Grandfathered Health Plan under the Patient Protection and Affordable Care Act .....	HHS/DOL/TREAS	Not Estimated	<0.1
Patient Protection and Affordable Care Act: Preexisting Condition Exclusions, Lifetime and Annual Limits, Rescissions, and Patient Protections .....	HHS/DOL/TREAS	Not Estimated	<0.1
Interim Final Rules for Group Health Plans and Health Insurance Issuers Relating to Internal Claims and Appeals and External Review Processes under the Patient Protection and Affordable Care Act .....	HHS/DOL/TREAS	Not Estimated	<0.1
Interim Final Rules for Group Health Plans and Health Insurance Issuers Relating to Coverage of Preventive Services under the Patient Protection and Affordable Care Act .....	HHS/DOL/TREAS	Not Estimated	Not Estimated
Migratory Bird Hunting; Final Frameworks for Early-Season Migratory Bird Hunting Regulations .....	DOI	0.2-0.3	Not estimated
Migratory Bird Hunting; Final Frameworks for Late Season Migratory Bird Hunting Regulations .....	DOI	0.2-0.3	Not estimated
Nondiscrimination on the Basis of Disability in Public Accommodations and Commercial Facilities .....	DOJ	1.0-2.1	0.5-0.7
Nondiscrimination on the Basis of Disability in State and Local Government Services .....	DOJ	0.2-0.3	0.1-0.2
Electronic Prescriptions for Controlled Substances .....	DOJ	0.3-1.3	<0.1
Cranes and Derricks in Construction .....	DOL	0.2	0.1
Improved Fee Disclosure for Pension Plans .....	DOL	Not Estimated	<0.1
Automatic Dependent Surveillance--Broadcast (ADS-B) Equipage Mandate to Support Air Traffic Control Service .....	DOT	0.1-0.2	0.2
Electronic On-Board Recorders for Hours-of-Service Compliance .....	DOT	0.2	0.1
Positive Train Control .....	DOT	<0.1	0.5-1.3
Pipeline Safety: Distribution Integrity Management .....	DOT	0.1	0.1
Passenger Car and Light Truck Corporate Average Fuel Economy Standards MYs 2012 to 2016 .....	DOT and EPA	3.9-18.2	1.7-4.7
S.A.F.E. Mortgage Licensing Act .....	TREAS	Not Estimated	0.1-0.2
Control of Emissions from New Marine Compression-Ignition Engines at or above 30 Liters per Cylinder .....	EPA	Not Estimated	Not Estimated
National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines .....	EPA	0.7-1.9	0.3
National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines--Existing Stationary Spark Ignition (Gas-Fired) .....	EPA	0.4-1.0	0.2
NESHAP: Portland Cement Notice of Reconsideration .....	EPA	6.1-16.3	0.8-0.9
Prevention of Significant Deterioration/Title V Greenhouse Gas Tailoring Rule .....	EPA	Not Estimated	Not Estimated
Renewable Fuels Standard Program .....	EPA	Not Estimated	Not Estimated
Review of the National Ambient Air Quality Standards for Sulphur Dioxide .....	EPA	2.8-38.6	0.3-2.0
Lead; Amendment to the Opt-out and Recordkeeping Provisions in the Renovation, Repair, and Painting Program .....	EPA	0.8-3.0	0.3
Revisions to the Spill Prevention, Control, and Countermeasure (SPCC) Rule .....	EPA	0	-0.1

## The Benefits and Costs of Federal Regulation in FY 2010

Each year, OMB reports to Congress agencies' estimates of the benefits and costs of major regulations reviewed in the prior fiscal year. Table 9–1 presents the benefit and cost estimates for the 34 non-budgetary rules reviewed by OMB in FY 2010.<sup>4</sup> Of those, agencies monetized both the benefits and costs for 18.<sup>5</sup>

Most of the benefits and costs reported in Table 9–1 are expressed as ranges, and sometimes as wide ranges, because of uncertainty about the likely consequences of rules. Quantification and monetization raise difficult conceptual and empirical questions. Prospective benefit-cost analysis requires predictions about the future—both about what will happen if the regulatory action is taken and what will happen if it is not—and what the future holds is typically not known for certain. A standard goal of the agency's analysis is to produce both a central "best estimate," which reflects the expected value of the benefits and costs of the rule, as well as a description of the ranges of plausible values for benefits, costs, and net benefits. These estimates inform the decisionmakers and the public of the degree of uncertainty associated with the regulatory decision. The process of public scrutiny can sometimes reduce that uncertainty.

To illustrate some of the underlying issues, consider the EPA's recent National Ambient Air Quality Standard (NAAQS) for Sulfur Dioxide. The benefits of the rule are estimated to be somewhere between \$2.8 to \$38.6 billion—an expansive range. Almost all of these estimated benefits are due to co-benefits of reduced mortality resulting from the reduction in particulate matter emissions caused by the rule. However, there is substantial uncertainty with respect to (a) the relationship between exposure to particulate matter and premature death and (b) the proper monetary valuation of avoiding a premature death. Hence, the agency reported a wide range of plausible values for the benefits of the NAAQS for Sulfur Dioxide. Similar uncertainties in both the science used to predict the consequences of rules and the monetary values of those consequences, contribute to the uncertainty represented in the ranges of benefits and costs for other rules in Table 9–1. Despite these uncertainties, benefit-cost analysis often reduces the range of reasonable approaches – and simultaneously helps to inform the decision about which approach is most reasonable.

<sup>4</sup> FY 201020 is the most recent period for which such a summary is available. These estimates were reported in OMB, 2011 Report to Congress on the Benefits and Costs of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities. A detailed description of the assumptions and calculations underlying these estimates is provided in that Report.

<sup>5</sup> (1) The Department of Health and Human Services issued six rules to implement health insurance reforms. (2) The Department of Interior adopted two Migratory Bird Hunting regulations where the agency assessed benefits associated with increased consumer welfare of hunting allowances. (3) The Environmental Protection Agency assessed the benefits and costs for both national and international coordinated strategy to control emissions from ocean-going vessels, adopted a case-study approach to examine the effects of the Renewable Fuels Program, and provided illustrative estimates for the Greenhouse Gas Tailoring Rule.

## Quantification and Breakeven Analysis

In some cases, the effort to monetize certain benefits (such as protection of streams and wildlife) will run into serious obstacles; quantification may be possible but not monetization. In other cases, analysts will know the direction of an effect, and perhaps be able to specify a range, but precise quantification itself will not be possible. Recognizing these points, OMB has recommended that consistent with Executive Orders 13563 and 12866, the best practice is to accompany all significant regulations with (1) a tabular presentation, placed prominently and offering a clear statement of qualitative and quantitative benefits and costs of the proposed or planned action, together with (2) a presentation of uncertainties and (3) similar information for reasonable alternatives to the proposed or planned action. An advantage of this approach is transparency. If, for example, it is possible to quantify certain benefits (such as protection of water quality) but not to monetize them, then the public should be made aware of that fact. At the same time, qualitative discussion of nonquantifiable benefits should help the public, and relevant decisionmakers, to understand the goal of the regulation and how it might achieve that goal.

When quantification is not possible, many agencies have found it both useful and informative to engage in "breakeven analysis." Under this approach, agencies specify how high the unquantified or unmonetized benefits would have to be in order for the benefits to justify the costs. Suppose, for example, that regulation that protects water quality costs \$105 million annually, and that it also has significant effects in reducing pollution in rivers and streams. It is clear that the regulation would be justified if and only if those effects could reasonably be valued at \$105 million or more. Once the nature and extent of the water quality benefits are understood, it might well be easy to see whether or not the benefits plausibly justify the costs -- and if the question is difficult, at least it would be clear why it is difficult. Breakeven analysis is an important tool, and it has analytical value when quantification is speculative or impossible.

### Current Agency Practice for Values of Mortality Reduction

Since agencies often design health and safety regulation to reduce risks to life, evaluation of these benefits can be the key part of the analysis. When monetizing reduced mortality risks, agencies often use what is commonly described as a "Value of a Statistical Life," or VSL. The term is misleading because it suggests, erroneously, that the goal of monetization is to place a "value" on individual lives. The goal is instead to value reductions in small risks of premature death (such as 1 in 100,000); it follows that "VSL" actually refers to the value of gaining small risk reductions. There is no effort to suggest that any individual's life can be expressed in monetary terms.

Circular A-4 provides background on the theory and practice of calculating VSL. It states that a substantial majority of the studies of VSL indicate a value that varies "from roughly \$1 million to \$10 million per statisti-



cal life.” In practice, agencies have tended to use a value in the middle or upper range of this distribution. (Note that Circular A-4 was issued in 2003 and that because of income growth, the figure increases over time.) OMB believes that it is important to consult the relevant literature, which contains a range of significant empirical findings and conceptual claims, in order to base analysis on the best available research. Below we provide a brief summary of the VSL values agencies have adopted in recent Regulatory Impact Analyses (RIAs).

Two agencies, EPA and DOT, have developed official guidance on VSL. In its 2011 update to its guidelines, DOT uses a value of \$6.2 million (\$2011), and requires all the components of the Department to use this value in their RIAs. EPA recently changed its VSL to \$6.3 million (\$2000) and adjusts this value for real income growth to later years. For example, in its final rule setting a new primary standard for Sulfur Dioxide, EPA adjusted VSL to account for a different currency year (\$2006) and to account for income growth to 2020, which yields a VSL of \$8.9 million. EPA stated in this RIA, however, that it is continuing their efforts to update this guidance.

OMB believes in the importance of consulting the growing empirical and conceptual work in this domain.

**Cost-per-life-saved of Health and Safety Regulation**

For regulations intended to reduce mortality risks, another analytic tool that can be used to assess regulations, and to help avoid unjustified burdens, is cost-effectiveness analysis. Some agencies develop estimates of the “net cost per life saved” for regulations intended to improve public health and safety. To calculate this figure, the costs of the rule minus any monetized benefits other than mortality reduction are placed in the numerator, and the expected reduction in mortality in terms of total number of lives saved is placed in the denominator. This measure avoids any assignment of monetary values to reductions in mortality risk. It still reflects, however, a concern for economic efficiency, insofar as choosing a regulatory option that reduces a given amount of mortality risk at a lower net cost to society would conserve scarce resources compared to choosing another regulatory option that would reduce the same amount of risk at greater net costs.

**Table 9–2. ESTIMATES OF THE NET COSTS PER LIFE SAVED OF SELECTED HEALTH AND SAFETY RULES RECENTLY REVIEWED BY OMB**

(In millions of 2001 dollars)

Rule	Agency	Net Cost per Life Saved	Notes
Prevention of Salmonella Enteritidis in Shell Eggs .....	HHS/FDA	Negative	Morbidity benefits exceed costs.
New Entrant Safety Assurance Process .....	DOT/FMCSA	Negative	Property damage and morbidity benefits exceed costs.
Reduced Stopping Distance Requirements for Truck Tractors .....	DOT/NHTSA	Negative	Property damage benefits exceed costs. The agency estimates that the rule will prevent 135 fatalities and 1,065 nonfatal injuries annually. These figures translate into 156 equivalent fatalities. The main estimates value equivalent fatalities prevented at \$6.1 million. It follows that the value of nonfatal injuries prevented is \$6.1 million*(156-135)=\$128.1 million annually. Total costs associated with the rule range from \$875 million to \$1,400 million annually. If we subtract the injury benefits from costs, the range of net cost per life saved is thus \$5.5 million to \$9.4 million (2007 dollar). Adjusting to \$2001 yields \$6.4 million to \$11.0 million.
Roof Crush Resistance .....	DOT/NHTSA	\$6.4-11.0	

Although the Department of Homeland Security has no official policy on VSL, it recently sponsored a report through its U.S. Customs and Border Protection, and has used the recommendations of this report to inform VSL values for several recent rulemakings. This report recommends \$6.3 million (\$2008) and also recommends that DHS adjust this value upward over time for real income growth (in a manner similar to EPA’s adjustment approach). Other regulatory agencies that have used a VSL in individual rulemakings include DOL’s Occupational Safety and Health Administration (OSHA) and HHS’ Food and Drug Administration (FDA). In a rulemaking revising worker safety standards when using cranes and derricks in construction, OSHA updated the previously used VSL of \$7.0 million (\$2003) to \$8.7 million (\$2010). The FDA is using a value of \$7.9 million (\$2010), but also often uses a monetary value of the remaining life years saved by alternative policies. This is sometimes referred to as a “Value of a Statistical Life Year” or VSLY. As noted,

Table 9–2 presents the net cost per life saved for four recent health and safety rules for which calculation is possible. The net cost per life saved is calculated using 3 percent discount rate and using agencies’ best estimates for costs and expected mortality reduction where those were provided by the agency. There is substantial variation in the net cost per life saved by these rules, ranging from negative (that is, the non-mortality-related benefits outweigh the costs), to potentially as high as \$11.0 million.

This table is designed to be illustrative rather than definitive, and continuing work must be done to ensure that estimates of this kind are complete and not misleading. For example, some mortality-reducing rules have a range of other benefits, including reductions in morbidity, and it is important to include these benefits in cost-effectiveness analysis. Other rules have benefits that are exceedingly difficult to quantify but nonetheless essential to consider; consider rules that improve water quality or have aes-

thetic benefits. Nonetheless, it is clear that some rules are far more cost-effective than others, and it is valuable to take steps to catalogue variations and to increase the

likelihood that scarce resources will be used as effectively as possible.

### III. BENEFIT-COST ANALYSIS OF BUDGETARY PROGRAMS

As noted, Executive Orders 13563 and 12866 require agencies, to the extent permitted by law, to “propose or adopt a regulation only upon a reasoned determination that the benefits of the intended regulation justify its costs.” OIRA works actively with agencies to promote compliance with this requirement.

Historically, benefit-cost analysis of Federal budgetary programs has been more limited than that of regulatory policy. Increasingly, though, the Federal Government explicitly employs benefit-cost analysis to ensure that projects and spending programs have benefits in excess of costs, maximize net benefits, and allocate federal dollars most efficiently across potential projects.

In the 1936 Flood Control Act, for example, Congress stated as a matter of policy that the Federal government should undertake or participate in flood control projects if the benefits exceeded the costs, where the lives and social security of people are at stake. By the late 1970s, the Army Corps of Engineers had begun to use benefit-cost analysis to improve the return on investment at a given project site. The Corps did this by designing projects based on increments of work whose benefits exceeded their costs. More recently, the Budget has used benefits and costs, along with other criteria, to develop an overall program for the Corps that yields the greatest net benefits or cost effectiveness.

Benefit-cost analysis can also be used to evaluate programs retrospectively to determine whether they should be either expanded or discontinued and how they can be improved. Chapter 8, “Program Evaluation”, in this volume discusses current efforts to improve program evaluation. Evidence that an activity can yield substantial net benefits has motivated the creation and expansion of a substantial number of programs. For example, longitudinal studies have shown that each dollar spent on high quality pre-school programs serving disadvantaged children yields substantially more than a dollar (in present value) in higher wages, less crime, and less use of public services, motivating an expansion of funding for quality

pre-K programs. Similar evidence has spurred the decision to expand funding for nurse-family partnerships, finding that each dollar spent in the program leads to more than a dollar of benefits mostly in reduced government expenditures on health care, educational and social services, and criminal justice, and that the highest returns were present in serving the most disadvantaged families. Similarly, GAO has concluded that the Women, Infants, and Children (WIC) program produces monetary benefits that exceed its costs by reducing the incidence of low birth weight and iron deficiency, which are linked to children’s behavior and development.

OMB continually works with executive agencies to improve their benefit-cost analyses, and to increase transparency. In its 2011 annual report to Congress on the benefits and costs of Federal regulations,<sup>6</sup> OMB continues to support the recommendations for improvement in agencies’ benefit-cost analysis by promoting (1) clarity with respect to underlying assumptions and anticipated consequences, (2) prominent tabular presentations of costs and benefits, and (3) careful consideration of the comments offered by members of the public on proposed rules. Furthermore, OMB recommends that benefit-cost analysis should be seen and used as a central part of open government. By providing the public with information about proposed and final regulations, by revealing assumptions and subjecting them to public assessment, and by drawing attention to the consequences of alternative approaches, such analysis can promote public understanding, scrutiny, and improvement of rules. OMB continues to explore ways to ensure that benefit-cost analysis helps promote the commitment to open government.

<sup>6</sup> OMB, 2011 Report to Congress on the Benefits and Costs of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities.

<sup>7</sup> See Transparency and Open Government, Memorandum for the Heads of Executive Departments and Agencies, President Obama, Jan. 21, 2009. For discussion of this point and its relationship to retrospective analysis of the effects of regulations, see Greenstone (2009).

### IV. IMPROVING BENEFIT-COST ANALYSIS

In the Memorandum on Transparency and Open Government, issued on January 21, 2009, the President called for the establishment of “a system of transparency, public participation, and collaboration.”<sup>8</sup> The memorandum elaborated the principles of such a system, designed to promote accountability and disclosure of information that “the public can readily find and use.” The memorandum noted that “[k]nowledge is widely dispersed in society, and public officials benefit from having access to that dispersed knowledge.” Implementing the President’s memorandum, agencies have begun to take a series of

concrete measures described in the Open Government Directive to put into practice the commitments to transparency, participation, and collaboration.<sup>9</sup>

The goals of this effort are to promote accountability, and to ensure that regulations are informed, to the extent possible, by a careful analysis of the likely consequences, and to reduce the dual risks of excessive and insufficient regulation. A particular goal, in the current period, is to avoid unjustified or excessive burdens on business, state and local government, and individuals. The recent agency checklist for Regulatory Impact Analysis is designed to promote these various goals (see Appendix).

<sup>8</sup> Available at: <http://www.gpoaccess.gov/presdocs/2009/DPCPD200900010.pdf>

<sup>9</sup> Available at: <http://www.openthegovernment.org/otg/OGD.pdf>

### **Participation and Collaboration in the Regulatory Process**

Executive Order 13563 states that “regulations shall be based, to the extent feasible and consistent with law, on the open exchange of information and perspectives . . . .” To promote that open exchange, Executive Order 13563 directs agencies to provide the public with timely access to regulatory analyses and supporting documents on regulations.gov to ensure a meaningful opportunity for public comment.

The Internet provides an ideal vehicle for making information public and, under Executive Order 13563, the Administration has committed to publish as much as possible online in a format that can be retrieved, downloaded, indexed, and searched by commonly-used web search applications. Importantly, this commitment promotes public accessibility of the analysis of benefits and costs, together with the supporting materials, in order to ensure that the analysis is subject to public scrutiny. That process of scrutiny can help to increase benefits, decrease costs, or both.

Agencies now publish a great deal of information relevant to rulemaking and benefit-cost analysis, including underlying data, online and in downloadable, as well as traditional, formats. Executive Order 13563 directs agencies to use regulations.gov to make the online record as complete as possible<sup>10</sup> and to take all necessary steps to make relevant material available to the public for comment.

Executive Order 13563 requires that the public should generally receive a comment period of at least 60 days for proposed regulatory actions. Even where statutes necessitate shorter comment periods, agencies can seek public comment and respond in a timely fashion to suggestions about potential improvements in rules and underlying analyses.

### **Publicly Accessible Summaries and Tables with Key Information**

In order to improve analysis of the effects of regulations, and simultaneously to improve accountability, OMB has called for a clear, salient, publicly accessible executive summary of both benefits and costs— written in a “plain language” manner designed to be understandable to the public. For all economically significant regulations, Executive Orders 13563 and 12866 require agencies to provide a description of the need for the regulatory action and a clear summary of the analysis of costs and benefits, both qualitative and quantitative. The summary often includes an accounting of benefits and costs of alternative approaches, and where relevant, an analysis of distributional impacts on subpopulations (such as disabled people or those with low income).

As noted, some benefits and costs can be quantified and monetized, while some can be described only in qualitative terms. A useful way to communicate effects that cannot be easily quantified or monetized is to present ranges of values (as agencies frequently now do).

### **Simple, Straightforward Justification of Preferred Option**

Executive Orders 13563 and 12866 require the executive summary to include “an explanation of why the planned regulatory action is preferable to the identified potential alternative,” and demonstrate that the agency has selected the approach “that maximizes net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity) unless a statute requires another regulatory approach.”

Under the Executive Orders, agencies are required to provide a “reasoned determination that the benefits of the intended regulation justify its costs,” to the extent permitted by law. In making those determinations, agencies should pay close attention to quantifiable and monetizable benefits and costs, but are permitted to consider values that are hard or impossible to quantify in light of existing knowledge, as well as distributional effects, human dignity, fairness, and considerations of equity (including, where relevant, considerations of environmental justice).

We have noted that where nonquantified or nonmonetized variables are important to the agency’s determination, agencies often use “breakeven analysis,” explaining how high the nonquantified or nonmonetized benefits would have to be in order for the benefits to justify the costs. In those situations, agencies make underlying assumptions transparent to the public and available through the rulemaking process. Where the agency has proceeded even though the benefits do not justify the costs, and where the agency has not selected the approach that maximizes net benefits, it should carefully explain its reasoning (as, for example, where a statute so requires).

Benefit-cost analysis is a useful and often indispensable method for evaluating programs and options. In some cases, it reveals that apparently attractive proposals are too expensive to be worthwhile. In other cases, it shows that costly proposals are well-justified, because the benefits are significantly higher than the costs. Often benefit-cost analysis helps to identify the range of reasonable options. It is true that conceptual and empirical challenges remain and that it is important to assess the evolving literature in order to meet those challenges. Especially in a period of serious economic difficulties, greater use and improvement of benefit-cost analysis are high priorities.

<sup>10</sup> Available at: [http://www.whitehouse.gov/omb/assets/inforeg/edocket\\_final\\_5-28-2010.pdf](http://www.whitehouse.gov/omb/assets/inforeg/edocket_final_5-28-2010.pdf)



## APPENDIX

## AGENCY CHECKLIST: REGULATORY IMPACT ANALYSIS

With this document, the Office of Information and Regulatory Affairs is providing a checklist to assist agencies in producing regulatory impact analyses (RIAs), as required for economically significant rules by Executive Order 12866 and OMB Circular A-4.

Nothing herein alters, adds to, or reformulates existing requirements in any way. Moreover, this checklist is limited to the requirements of Executive Order 12866 (available at: [http://www.reginfo.gov/public/jsp/Utilities/EO\\_12866.pdf](http://www.reginfo.gov/public/jsp/Utilities/EO_12866.pdf)) and Circular A-4 (available at: <http://www.whitehouse.gov/OMB/circulars/a004/a-4.pdf>); it does not address requirements imposed by other authorities, such as the National Environmental Policy Act, the Regulatory Flexibility Act, the Unfunded Mandates Reform Act, the Paperwork Reduction Act, and various Executive Orders that require analysis. Executive Order 12866 and Circular A-4, as well as those other authorities, should be consulted for further information.

## Checklist for Regulatory Impact Analysis:

Does the RIA include a reasonably detailed description of the need for the regulatory action?<sup>11 12</sup>

Does the RIA include an explanation of how the regulatory action will meet that need?<sup>13</sup>

Does the RIA use an appropriate baseline (i.e., best assessment of how the world would look in the absence of the proposed action)?<sup>14</sup>

Is the information in the RIA based on the best reasonably obtainable scientific, technical, and economic information and is it presented in an accurate, clear, complete, and unbiased manner?<sup>15</sup>

<sup>11</sup> Required under Executive Order 12866, Section 6(a)(3)(B)(i): "The text of the draft regulatory action, together with a reasonably detailed description of the need for the regulatory action and an explanation of how the regulatory action will meet

<sup>12</sup> Circular A-4 states: "If the regulation is designed to correct a significant market failure, you should describe the failure both qualitatively and (where feasible) quantitatively." (P. 4)

<sup>13</sup> See note 1 above.

<sup>14</sup> Circular A-4 states: "You need to measure the benefits and costs of a rule against a baseline. This baseline should be the best assessment of the way the world would look absent the proposed action... In some cases, substantial portions of a rule may simply restate statutory requirements that would be self-implementing, even in the absence of the regulatory action. In these cases, you should use a pre-statute baseline." (P. 15-16)

<sup>15</sup> Circular A-4 states: "Because of its influential nature and its special role in the rulemaking process, it is appropriate to set minimum quality standards for regulatory analysis. You should provide documentation that the analysis is based on the best reasonably obtainable scientific, technical, and economic information available... you should assure compliance with the Information Quality Guidelines for your agency and OMB's Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies..." (P. 17). The IQ Guidelines (paragraph V.3.a) define objectivity to

Are the data, sources, and methods used in the RIA provided to the public on the Internet so that a qualified person can reproduce the analysis?<sup>16</sup>

To the extent feasible, does the RIA quantify and monetize the anticipated benefits from the regulatory action?<sup>17 18</sup>

To the extent feasible, does the RIA quantify and monetize the anticipated costs?<sup>19</sup>

Does the RIA explain and support a reasoned determination that the benefits of the intended regulation justify its costs (recognizing that some benefits and costs are difficult to quantify)?<sup>20</sup>

include "whether disseminated information is being presented in an accurate, clear, complete, and unbiased manner." <http://www.whitehouse.gov/omb/assets/omb/fedreg/reproducible2.pdf>

<sup>16</sup> Circular A-4 states: "A good analysis should be transparent and your results must be reproducible. You should clearly set out the basic assumptions, methods, and data underlying the analysis and discuss the uncertainties associated with the estimates. A qualified third party reading the analysis should be able to understand the basic elements of your analysis and the way in which you developed your estimates. To provide greater access to your analysis, you should generally post it, with all the supporting documents, on the internet so the public can review the findings." (P. 17). OMB IQ Guidelines (paragraph V.3.b.ii) further states: "If an agency is responsible for disseminating influential scientific, financial, or statistical information, agency guidelines shall include a high degree of transparency about data and methods to facilitate the reproducibility of such information by qualified third parties."

<sup>17</sup> Required under Executive Order 12866, Section 6(a)(3)(C)(i): "An assessment, including the underlying analysis, of benefits anticipated from the regulatory action (such as, but not limited to, the promotion of the efficient functioning of the economy and private markets, the enhancement of health and safety, the protection of the natural environment, and the elimination or reduction of discrimination or bias) together with, to the extent feasible, a quantification of those benefits."

<sup>18</sup> Circular A-4 states: "You should monetize quantitative estimates whenever possible. Use sound and defensible values or procedures to monetize benefits and costs, and ensure that key analytical assumptions are defensible. If monetization is impossible, explain why and present all available quantitative information." (P. 19). Circular A-4 also offers a discussion of appropriate methods for monetizing benefits that might not easily be turned into monetary equivalents.

<sup>19</sup> Required under Executive Order 12866, Section 6(a)(3)(C)(ii): "An assessment, including the underlying analysis, of costs anticipated from the regulatory action (such as, but not limited to, the direct cost both to the government in administering the regulation and to businesses and others in complying with the regulation, and any adverse effects on the efficient functioning of the economy, private markets (including productivity, employment, and competitiveness), health, safety, and the natural environment), together with, to the extent feasible, a quantification of those costs;" See also note 6 above.

<sup>20</sup> Executive Order 12866, Section 1(b)(6) states that to the extent permitted by law, "[e]ach agency shall assess both the costs and the benefits of the intended regulation and, recognizing that some costs and benefits are difficult to quantify, propose or adopt a regulation only upon a reasoned determination that the benefits of the intended regulation justify its costs." As Executive Order 12866 recognizes, a statute may require an agency to proceed with a regulation even if the benefits do not justify the costs; in such a case, the agency's analysis may not show any such justification.

Does the RIA assess the potentially effective and reasonably feasible alternatives?<sup>21</sup>

Does the RIA assess the benefits and costs of different regulatory provisions separately if the rule includes a number of distinct provisions?<sup>22</sup>

Does the RIA assess at least one alternative that is less stringent and at least one alternative that is more stringent?<sup>23</sup>

Does the RIA consider setting different requirements for large and small firms?<sup>24</sup>

Does the preferred option have the highest net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity), unless a statute requires a different approach?<sup>25</sup>

Does the RIA include an explanation of why the planned regulatory action is preferable to the identified potential alternatives?<sup>26</sup>

<sup>21</sup> Required under Executive Order 12866, Section 6(a)(3)(C)(iii): “An assessment, including the underlying analysis, of costs and benefits of potentially effective and reasonably feasible alternatives to the planned regulation, identified by the agencies or the public (including improving the current regulation and reasonably viable nonregulatory actions).”

<sup>22</sup> Circular A-4 states: “You should analyze the benefits and costs of different regulatory provisions separately when a rule includes a number of distinct provisions.” (P. 17)

<sup>23</sup> Circular A-4 states: “you generally should analyze at least three options: the preferred option; a more stringent option that achieves additional benefits (and presumably costs more) beyond those realized by the preferred option; and a less stringent option that costs less (and presumably generates fewer benefits) than the preferred option.” (P. 16)

<sup>24</sup> Circular A-4 states: “You should consider setting different requirements for large and small firms, basing the requirements on estimated differences in the expected costs of compliance or in the expected benefits. The balance of benefits and costs can shift depending on the size of the firms being regulated. Small firms may find it more costly to comply with regulation, especially if there are large fixed costs required for regulatory compliance. On the other hand, it is not efficient to place a heavier burden on one segment of a regulated industry solely because it can better afford the higher cost. This has the potential to load costs on the most productive firms, costs that are disproportionate to the damages they create. You should also remember that a rule with a significant impact on a substantial number of small entities will trigger the requirements set forth in the Regulatory Flexibility Act. (5 U.S.C. 603(c), 604).” (P. 8)

<sup>25</sup> Executive Order 12866, Section 1(a) states: “agencies should select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity) unless a statute requires another regulatory approach.”

<sup>26</sup> Required under Executive Order 12866, Section 6(a)(3)(C)(iii): “An assessment, including the underlying analysis, of costs and benefits of potentially effective and reasonably feasible alternatives to the planned regulation, identified by the agencies or the public (including improving the current regulation and reasonably viable nonregulatory actions), and an explanation why the planned regulatory action is preferable to the identified potential alternatives.”

Does the RIA use appropriate discount rates for benefits and costs that are expected to occur in the future?<sup>27</sup>

Does the RIA include, if and where relevant, an appropriate uncertainty analysis?<sup>28</sup>

Does the RIA include, if and where relevant, a separate description of distributive impacts and equity?<sup>29</sup>

Does the RIA provide a description/accounting of transfer payments?<sup>30</sup>

<sup>27</sup> Circular A-4 contains a detailed discussion, generally calling for discount rates of 7 percent and 3 percent for both benefits and costs. It states: “Benefits and costs do not always take place in the same time period. When they do not, it is incorrect simply to add all of the expected net benefits or costs without taking account of when they actually occur. If benefits or costs are delayed or otherwise separated in time from each other, the difference in timing should be reflected in your analysis.... For regulatory analysis, you should provide estimates of net benefits using both 3 percent and 7 percent.... If your rule will have important intergenerational benefits or costs you might consider a further sensitivity analysis using a lower but positive discount rate in addition to calculating net benefits using discount rates of 3 and 7 percent.” (PP. 31, 34, 36)

<sup>28</sup> Circular A-4 provides a detailed discussion. Among other things, it states: “Examples of quantitative analysis, broadly defined, would include formal estimates of the probabilities of environmental damage to soil or water, the possible loss of habitat, or risks to endangered species as well as probabilities of harm to human health and safety. There are also uncertainties associated with estimates of economic benefits and costs, such as the cost savings associated with increased energy efficiency. Thus, your analysis should include two fundamental components: a quantitative analysis characterizing the probabilities of the relevant outcomes and an assignment of economic value to the projected outcomes.” (P. 40). Circular A-4 also states: “You should clearly set out the basic assumptions, methods, and data underlying the analysis and discuss the uncertainties associated with the estimates.” (P. 17)

<sup>29</sup> Executive Order 12866, Section 1(b)(5) states; “When an agency determines that a regulation is the best available method of achieving the regulatory objective, it shall design its regulations in the most cost-effective manner to achieve the regulatory objective. In doing so, each agency shall consider incentives for innovation, consistency, predictability, the costs of enforcement and compliance (to the government, regulated entities, and the public), flexibility, distributive impacts, and equity” (emphasis added).

Circular A-4 states: “The term ‘distributional effect’ refers to the impact of a regulatory action across the population and economy, divided up in various ways (e.g., income groups, race, sex, industrial sector, geography)... Your regulatory analysis should provide a separate description of distributional effects (i.e., how both benefits and costs are distributed among sub-populations of particular concern) so that decision makers can properly consider them along with the effects on economic efficiency... Where distributive effects are thought to be important, the effects of various regulatory alternatives should be described quantitatively to the extent possible, including the magnitude, likelihood, and severity of impacts on particular groups.” (P. 14)

<sup>30</sup> Circular A-4 states: “Distinguishing between real costs and transfer payments is an important, but sometimes difficult, problem in cost estimation. . . . Transfer payments are monetary payments from one group to another that do not affect total resources available to society. . . . You should not include transfers in the estimates of the benefits and costs of a regulation. Instead, address them in a separate discussion of the regulation’s distributional effects.” (P. 14)



Does the RIA analyze relevant effects on disadvantaged or vulnerable populations (e.g., disabled or poor)?<sup>31</sup>

Does the analysis include a clear, plain-language executive summary, including an accounting statement that summarizes the benefit and cost estimates for the regulatory action under consideration, including the qualitative and non-monetized benefits and costs?<sup>32</sup>

<sup>31</sup> Circular A-4 states: “Your regulatory analysis should provide a separate description of distributional effects (i.e., how both benefits and costs are distributed among sub-populations of particular concern) so that decision makers can properly consider them along with the effects on economic efficiency. Executive Order 12866 authorizes this approach. Where distributive effects are thought to be important, the effects of various regulatory alternatives should be described quantitatively to the extent possible, including the magnitude, likelihood, and severity of impacts on particular groups.” (P. 14)

<sup>32</sup> Circular A-4 states: “Your analysis should also have an executive summary, including a standardized accounting statement.” (P. 3). OMB recommends that: “Regulatory analysis should be made as transparent as possible by a prominent and accessible executive summary—written in a “plain language” manner designed to be understandable to the public—that outlines the central judgments that support regulations, including the key findings of the analysis (such as central assumptions and uncertainties)...If an agency has analyzed the costs and benefits of regulatory alternatives to the planned action (as is required for economically significant regulatory actions), the summary should include such information.” See 2010 Report to Congress on the Benefits and Costs of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities, page 51. Available at: <http://www.whitehouse.gov/sites/>

Does the analysis include a clear and transparent table presenting (to the extent feasible) anticipated benefits and costs (quantitative and qualitative)?<sup>33</sup>

[default/files/omb/legislative/reports/2010\\_Benefit\\_Cost\\_Report.pdf](http://www.whitehouse.gov/sites/default/files/omb/legislative/reports/2010_Benefit_Cost_Report.pdf)

<sup>33</sup> Circular A-4 states: “You need to provide an accounting statement with tables reporting benefit and cost estimates for each major final rule for your agency.” (P. 44). Circular A-4 includes an example of a format for agency consideration. OMB recommends “that agencies should clearly and prominently present, in the preamble and in the executive summary of the regulatory impact analysis, one or more tables summarizing the assessment of costs and benefits required under Executive Order 12866 Section 6(a)(3)(C)(i)-(iii). The tables should provide a transparent statement of both quantitative and qualitative benefits and costs of the proposed or planned action as well as of reasonable alternatives. The tables should include all relevant information that can be quantified and monetized, along with relevant information that can be described only in qualitative terms. It will often be useful to accompany a simple, clear table of aggregated costs and benefits with a separate table offering disaggregated figures, showing the components of the aggregate figures. To the extent feasible in light of the nature of the issue and the relevant data, all benefits and costs should be quantified and monetized. To communicate any uncertainties, we recommend that the table should offer a range of values, in addition to best estimates, and it should clearly indicate impacts that cannot be quantified or monetized. If nonquantifiable variables are involved, they should be clearly identified. Agencies should attempt, to the extent feasible, not merely to identify such variables but also to signify their importance.” See 2010 Report to Congress on the Benefits and Costs of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities, page 51. Available at: [http://www.whitehouse.gov/sites/default/files/omb/legislative/reports/2010\\_Benefit\\_Cost\\_Report.pdf](http://www.whitehouse.gov/sites/default/files/omb/legislative/reports/2010_Benefit_Cost_Report.pdf)

## 10. SOCIAL INDICATORS

The social indicators presented in this chapter illustrate in broad terms how the Nation is faring in selected areas, including the economy, energy, the environment, health, and education, among others. The indicators shown in the tables in this chapter are only a subset drawn from the vast array of available data on conditions in the United States. In choosing indicators for these tables, priority was given to measures that were consistently available over an extended period. Such indicators make it easier to draw comparisons and establish trends.

The individual measures in these tables are influenced to varying degrees by many Government policies and programs, as well as by external factors beyond the Government's control. They do not measure the outcomes of Government policies, because they do not show the direct results of Government activities, but they do provide a quantitative measure of the progress or lack of progress toward some of the ultimate ends that Government policy is intended to promote. The "Program Evaluation" and "Benefit-Cost Analysis" chapters of this volume discuss approaches toward assessing directly the impacts of particular Government programs.

The President has made it clear that policy decisions should be based upon evidence—evidence about what the Nation's greatest needs and challenges are and evidence about what strategies are working. The social indicators in this chapter provide useful information both for prioritizing budgetary and policymaking resources and for evaluating how well existing approaches are working.

*Economic Conditions:* The 2008-2009 economic downturn produced the worst labor market in more than a generation. Unemployment is higher than at any time in the past quarter century, and the employment-to-population ratio has fallen below 60 percent for the first time since 1984. Real GDP per capita has declined over the past five years.

*Income and Wealth:* Over the entire period from 1960 to 2011 shown in the tables the primary pattern has been one of rising living standards. Real disposable income per capita has more than tripled as technological progress and the accumulation of human and physical capital have increased the Nation's productive capacity. Average household net worth has more than doubled. But these gains have not been evenly distributed. Median household income is up only 23 percent (since 1967) and was lower in 2010 than in 1997. The largest income gains have been concentrated among higher-income families and individuals. Similarly, the median wealth of households in the decade before retirement has risen, but not nearly as rapidly as mean wealth. Changing household composition is partly responsible for these trends. The numbers of two-earner households and single-parent households have both increased. Stagnating wages for

low-skill workers are another reason why rising average incomes have not had more impact on the most economically vulnerable Americans.

*Economic Inequality:* The rise in the share of national income received by those at the top of the income distribution can be seen in the two inequality measures in Table 10-1. The share of income accruing to the lower 60 percent of households has fallen from 32.3 percent in 1970 to 26.4 percent in 2010. The income share of the top one percent of taxpayers has risen from around eight percent in the two decades between 1960 and 1980 to 18 percent in 2008. The poverty rate, which fell dramatically between 1960 and 1970, as the economy prospered and as Social Security and other safety-net programs expanded, is at about the same level as it was in 1966—despite the large increase in per capita income—and 15 percent of American households are food-insecure.

*Setting the Stage for Future Prosperity:* The Nation's future economic prosperity depends on having a highly skilled workforce, an expanding stock of physical capital, including advanced infrastructure, and a business environment that encourages innovation. Environmental quality is also important for future well-being.

*Saving:* National saving is a key determinant of future prosperity because it supports capital accumulation. Table 10-1 shows that net national saving, which was already low by international standards when it averaged around 10 percent in the 1960s and 1970s, fell from 6.2 percent in 2000 to 2.0 percent in 2007 as Federal budget surpluses turned to deficits, and fell even further in the recession that followed. During the recent economic downturn, personal saving has rebounded to around 5 percent, but net national saving, which includes the Government's dis-saving, has turned slightly negative. Despite the current low saving rate, previous saving has resulted in a large accumulation of physical capital. The stock of physical capital including consumer durable goods like cars and appliances amounted to \$49 trillion in 2010, more than four times the size of the capital stock in 1960, after accounting for inflation.

*Innovation:* National Research and Development (R&D) spending has hovered between 2.5 percent and 2.8 percent of GDP for most of the past 50 years. Successful R&D can result in new innovations, which can also be encouraged by patent protection. Patents encourage innovation by awarding an inventor the right to exclude others from the use of an invention unless compensated. The patent system also assures publication of patented ideas distributing knowledge that might otherwise be kept confidential. Patents by U.S. inventors have increased threefold since 1960.

*Environmental Quality:* The Nation's future well-being and prosperity depends also on stewardship of our

natural resources, the environment, and on our ability to bring about a clean energy economy. The country has made major strides in improving air quality since the passage of the Clean Air Act in 1970. Concentrations of the main criteria pollutants tracked by the Environmental Protection Agency have declined significantly since 1970. The largest decline was for lead, which was removed from gasoline, but there have also been large declines in the emissions of carbon monoxide, nitrogen oxides, and sulfur dioxide. The air has become markedly cleaner in the United States as a result of this progress. Progress on improving water quality has also been noticeable as an increasing proportion of the population is served by improved water treatment facilities.

Moving forward, the greatest environmental challenge is reducing greenhouse gas emissions. In 2009, emissions were 5,618 teragrams. The President announced a target reduction of 17 percent in greenhouse gas emissions between 2005 and 2020, with an ultimate reduction of 83 percent between 2005 and 2050. While technological advances and a shift in production patterns mean that Americans now use about half as much energy per real dollar of GDP as they did 50 years ago, rising income levels mean that per capita consumption has remained roughly constant. Only seven percent of U.S. energy production is from renewable sources.

*Health, Education, and Civic Engagement:* Table 10-2 focuses on additional national priorities: health, education, community involvement and civic engagement.

**Health:** The first three groups of indicators in this table show measures related to the Nation's health. The United States devotes a large fraction of its income to health care, and that share has increased more than threefold since 1960. In the latest data, the share of GDP accounted for by health expenditures was 17.8 percent of GDP in 2009, and the share is projected to have remained near that level in 2010-2011. This is the largest it has ever been and well above what other nations spend on health. Despite the large expenditures on health care, many Americans were unable to obtain health insurance. In 2010, about 50 million people, 16 percent of the U.S. population, lacked health insurance. In 2010, the President signed into law the Affordable Care Act, which is projected to reduce the number of uninsured by 32 million Americans.

The United States has seen progress over the last 50 years in some important indicators of health status. Infant mortality has fallen from 26 deaths per 1,000 live births in 1960 to less than 7 deaths since 2000. In 2009, infant mortality fell to all-time low of 6.4 per 1,000 live births. Life expectancy at birth has increased substantially, rising by more than eight years since 1960, although it lags behind that in many other developed countries. Running counter to these positive trends, 21 percent of the adult population still smokes (a level below historic highs, but still troubling), and about 33 percent of the population is classified as obese according to criteria established by the Centers for Disease Control and Prevention, up from 15 percent twenty years ago.

**Education:** The Administration is committed to returning America to being number one in the world in

high school and college graduation rates and academic achievement, which is critical to long-term prosperity and growth. Between 1960 and 1980, the percentage of 18-24 year olds with a high school diploma increased from 60 percent to 81 percent, a gain of about 10 percentage points per decade. Progress has slowed since then with only a four percentage point gain over the past 30 years. College enrollment rates have continued to rise. In 1980 only a quarter of 18-24 year olds were enrolled in college. In the latest data that number was 41 percent. The most thorough measurement of education achievement is the National Assessment of Educational Progress (NAEP). These measures have been taken since the 1980s. They show only very gradual improvement in mathematics and no discernible progress in reading for American 17-year olds.

**Housing:** Americans are generally well housed, but some of the population faces housing problems. In 2009, about 5 percent of households with children lived in inadequate housing as defined by the Census Bureau. These problems usually consisted of poor plumbing, inadequate heating, or other physical maintenance problems. About six percent of these households were experiencing overcrowding. Both measures were down from levels reported in the 1980s. However, many families have experienced increased housing costs relative to income. In 2009, 39 percent of families with children were spending more than 30 percent of reported income on housing and utilities, up from 17 percent in 1980.

**Crime:** Since 1980, there has been a remarkable decline in violent crime. The two crime measures shown in Table 10-2 are based on different types of record keeping. The murder rate is based on reported homicides compiled by the Federal Bureau of Investigation from local law enforcement agencies, while the violent crime statistic is based on surveys of victims. The violent crime rate has declined to about 30 percent of its peak level in 1979. Meanwhile, the murder rate has been cut in half.

**Families:** Measures of family instability increased significantly up until around 1995. Since 1995, births to unmarried adolescents age 15 to 17 have dropped from around 30 per 1,000 women to about 19 per 1,000. After rising for more than three decades, the percentage of children living only with their mother stabilized at around 24 percent of all children from 1995 through 2009.

**Charitable Giving:** Americans increased their charitable contributions at an average real rate of slightly less than two percent per year between 1960 and 2008; real GDP per capita grew by slightly more than two percent per year over that interval. Charitable giving measured in real terms dropped slightly in 2008 and again in 2009, as the recession and capital losses cut into family resources, but the level of giving appears to have rebounded in 2010, and it remains above its level in 2006.

**Voting:** Another measure of American's willingness to participate in civic activity, the voting rate for President, was at 64 percent in 1960, but averaged about 55 percent from 1972 through 2000 before rising to 60 percent in 2004 and 62 percent in 2008.

*Other Compilations of Economic and Social Indicators:* There are many other sources of data on trends in American social and economic conditions, including the *Statistical Abstract* published annually by the Census Bureau (the Census Bureau has announced plans to cease publication of the *Statistical Abstract* following the 2012 volume). Some examples are described below. Cutting across a range of social and economic domains, the Interagency Forum on Child and Family Statistics annually assembles *American's Children: Key National Indicators of Well-Being* (<http://www.childstats.gov>). The Interagency Forum on Aging-Related Statistics publishes *Older Americans: Key Indicators of Well-Being* every other year ([http://www.agingstats.gov/agingstatsdotnet/main\\_site/default.aspx](http://www.agingstats.gov/agingstatsdotnet/main_site/default.aspx)).

There are also topic-specific indicators, which highlight performance in specific areas. *Science and Engineering Indicators*, published by the National Science Board, provides a broad base of quantitative information on the U.S.

and international science and engineering enterprise: (<http://www.nsf.gov/statistics/indicators>). The Science Resources Statistics Division at the National Science Foundation is doing developmental work on measuring innovation, an important component of the scientific enterprise not currently included in our measures. *Healthy People 2020* within the Department of Health and Human Services offers a statement of national health objectives that identifies the most significant preventable threats to health and establishes national goals to reduce these threats. The National Center for Health Statistics annually publishes *Health, United States* (<http://www.cdc.gov/nchs/hus.htm>), a comprehensive compilation of health indicators. The National Center for Education Statistics within the Department of Education publishes the *Condition of Education* (<http://nces.ed.gov/programs/coe>). The website includes a set of indicators and also special analyses and a user's guide.

Table 10–1. ECONOMIC AND SOCIAL INDICATORS

Calendar Years		1960	1970	1980	1990	1995	2000	2005	2009	2010	2011
<b>Economic Conditions</b>											
Living Standards:											
1	Real GDP per person (2005 dollars) <sup>1</sup> .....	15,716	20,915	25,675	32,157	34,122	39,752	42,715	41,409	42,308	42,631
	average annual percent change (5-year trend) .....	0.8	2.3	2.6	2.3	1.2	3.1	1.4	-0.2	-0.2	-0.4
2	Real disposable income per capita average (2005 dollars) <sup>2</sup> .....	10,860	15,151	18,855	23,557	24,939	28,886	31,318	32,141	32,446	32,495
	average annual percent change (5-year trend) .....	1.2	3.2	2.0	1.8	1.1	3.0	1.6	0.6	0.7	0.1
3	Real median income: all households (2010 dollars) .....	N/A	43,055	44,616	48,423	48,408	53,164	51,739	50,599	49,445	N/A
	average annual percent change (5-year trend) .....	N/A	N/A	0.5	1.2	-0.0	1.9	-0.5	-0.2	-0.9	N/A
4	Poverty rate (%) <sup>2</sup> .....	22.2	12.6	13.0	13.5	13.8	11.3	12.6	14.3	15.1	N/A
5	Food-insecure households (percent of all households) <sup>3</sup> .....	N/A	N/A	N/A	N/A	11.9	10.5	11.0	14.7	14.5	N/A
Jobs and Unemployment:											
6	Civilian unemployment rate (%) .....	5.5	4.9	7.1	5.5	5.6	4.0	5.1	9.3	9.6	9.0
7	Unemployment plus marginally attached and underemployed (%) .....	N/A	N/A	N/A	N/A	10.0	7.0	8.9	16.3	16.8	15.9
8	Employment-population ratio % <sup>4</sup> .....	56.1	57.4	59.2	62.8	62.9	64.4	62.7	59.3	58.5	58.4
9	Payroll employment change - December to December (millions) .....	-0.4	-0.5	0.3	0.3	2.2	2.0	2.5	-5.1	0.9	1.6
10	Payroll employment change - 5-year annual average (millions) .....	0.2	1.7	2.6	2.1	1.8	2.9	0.5	-0.6	-0.9	-1.0
Economic Inequality:											
11	Income share of lower 60% of all households .....	N/A	32.3	31.2	29.3	28.0	27.3	26.6	26.6	26.4	N/A
12	Income share of top 1% of all taxpayers .....	8.4	7.8	8.2	13.0	13.5	16.5	17.4	N/A	N/A	N/A
Wealth Creation:											
13	Net national saving rate (% of GDP) <sup>5</sup> .....	10.4	8.1	7.1	3.9	4.7	6.2	3.0	-1.9	-0.4	-0.3
14	Personal Saving Rate (% of Disposable Personal Income) <sup>5</sup> .....	7.2	9.4	9.8	6.5	5.2	2.9	1.5	5.1	5.3	4.5
15	Average household net worth (2011 dollars) <sup>5</sup> .....	233,621	280,457	307,200	366,831	412,725	523,483	608,807	493,011	515,875	483,249
16	Median wealth of households aged 55–64 (2009 dollars) <sup>6</sup> .....	N/A	N/A	N/A	166,668	163,752	210,052	281,741	222,300	N/A	N/A
Innovation:											
17	R&D spending (% of GDP) .....	2.6	2.5	2.3	2.6	2.5	2.7	2.6	2.8	2.7	2.7
18	Patents issued to U.S. residents (thousands) .....	42.3	50.6	41.7	56.1	68.2	103.6	88.5	107.0	132.5	N/A
19	Multifactor productivity (average 5 year percent change) .....	1.0	0.9	0.8	0.7	0.5	1.3	1.8	0.2	0.6	N/A
20	Nonfarm output per hour (average 5 year percent change) <sup>1</sup> .....	1.8	2.1	1.1	1.5	1.5	2.7	3.1	1.4	1.9	1.9
Capital and Infrastructure:											
21	Bridges that are structurally deficient or functionally obsolete (%) <sup>7</sup> .....	N/A	N/A	N/A	N/A	31.8	28.6	26.3	24.8	24.3	N/A
22	Real net stock of fixed assets and consumer durable goods (\$2010 bills) .....	11,257	16,430	22,639	29,946	33,316	39,209	45,155	48,872	49,324	N/A
<b>Energy and Environment:</b>											
Air Quality - Mean Pollution Concentration levels <sup>8</sup> :											
23	Carbon Monoxide (ppm) based on 104 monitoring sites .....	N/A	N/A	8.951	6.130	4.797	3.461	2.296	N/A	N/A	N/A
24	Ground Level Ozone (ppm) based on 247 monitoring sites .....	N/A	N/A	0.101	0.089	0.090	0.082	0.080	0.070	0.073	N/A
25	Lead (ug/m3) based on 31 monitoring sites .....	N/A	N/A	1.338	0.525	0.357	0.270	0.194	0.226	0.144	N/A
26	Nitrogen Dioxide (ppb) based on 81 monitoring sites .....	N/A	N/A	27.341	23.935	22.438	20.034	16.871	13.564	13.076	N/A
Particulate Matter (ug/m3):											
27	PM10 based on 279 monitoring sites .....	N/A	N/A	N/A	82.663	68.551	64.344	59.093	50.624	51.022	N/A
28	PM 2.5 based on 646 monitoring sites .....	N/A	N/A	N/A	N/A	N/A	13.620	12.958	9.816	9.992	N/A
29	Sulfur Dioxide (ppm) based on 141 monitoring sites .....	N/A	N/A	11.830	8.306	5.926	5.102	4.299	2.528	2.443	N/A
Water Quality:											
30	Population served by secondary treatment or better (millions) <sup>6</sup> .....	53.4	85.9	117.9	154.4	163.3	189.1	205.2	208.0	210.2	212.5
Climate Change:											
31	Net greenhouse gas emissions (teragrams CO2 equivalent) <sup>9</sup> .....	N/A	N/A	N/A	5,320	5,928	6,536	6,157	5,618	N/A	N/A
32	Per capita greenhouse gas emissions (megagrams CO2 equivalent) .....	N/A	N/A	N/A	21.3	22.3	23.2	20.8	18.3	N/A	N/A
33	Per 2005\$ of GDP greenhouse emissions (kilograms CO2 equivalent) .....	N/A	N/A	N/A	0.663	0.652	0.583	0.488	0.442	N/A	N/A
Energy:											
34	Energy consumption per capita (millions of BTUs) .....	250	331	344	338	342	350	339	308	317	N/A
35	Energy consumption per real dollar of GDP (thousands of BTUs) .....	15.9	15.9	13.4	10.5	10.0	8.8	7.9	7.3	7.4	N/A
36	Energy production from renewable sources (% of total) .....	N/A	N/A	N/A	N/A	N/A	N/A	6.4	8.2	7.5	N/A

<sup>1</sup> Values for 2011 based on Administration projection for 2011.Q4 growth.

<sup>2</sup> The poverty rate does not reflect noncash government transfers.

<sup>3</sup> These households were unable to acquire adequate food to meet the needs of all their members at some time during the year because they had insufficient money or other resources for food.

<sup>4</sup> Civilian employment as a percent of the civilian noninstitutional population age 16 and above.

<sup>5</sup> 2011 through 2011.Q3 only.

<sup>6</sup> Data interpolated for some years.

<sup>7</sup> Bridges are structurally deficient if they have been restricted to light vehicles, require immediate rehabilitation, or are closed. They are functionally obsolete if they no longer meet the criteria for the system of which the bridge is carrying a part.

<sup>8</sup> ppm -- parts per million; ug/m3 -- micrograms per cubic meter

<sup>9</sup> This is a net measure reflecting both sources and sinks of greenhouse gas.



Table 10–2. ECONOMIC AND SOCIAL INDICATORS

Calendar Years		1960	1970	1980	1990	1995	2000	2005	2009	2010	2011
<b>Access to Health Care:</b>											
37	Total national health expenditures (percent of GDP) <sup>1</sup> .....	5.2	7.2	9.2	12.5	13.9	13.8	16.0	17.8	17.8	17.9
38	Percentage of population without health insurance .....	N/A	N/A	N/A	12.9	14.4	13.1	14.6	16.1	16.3	N/A
39	% of children age 19–35 months with recommended immunizations <sup>2</sup> .....	N/A	N/A	N/A	N/A	N/A	72.8	80.8	71.9	N/A	N/A
<b>Health Status:</b>											
40	Infant mortality (per 1000 live births) <sup>3</sup> .....	26.0	20.0	12.6	9.2	7.6	6.9	6.9	6.4	N/A	N/A
41	Low birthweight [<2,500 gms] percentage of babies .....	7.7	7.9	6.8	7.0	7.3	7.6	8.2	8.2	8.1	N/A
42	Life expectancy at birth (years) <sup>3</sup> .....	69.7	70.8	73.7	75.4	75.8	76.8	77.4	78.2	N/A	N/A
<b>Health Risks:</b>											
43	Cigarette smokers (% population 18 and older) .....	N/A	39.2	32.7	25.3	24.6	23.1	20.8	20.6	N/A	N/A
44	Obesity (% of population with BMI over 30) <sup>4</sup> .....	13.3	N/A	15.1	22.9	N/A	30.1	33.9	N/A	N/A	N/A
45	Alcohol (% high school seniors engaged in heavy drinking) <sup>5</sup> .....	N/A	N/A	41.2	32.2	29.8	30.0	26.2	25.2	N/A	N/A
46	Physical activity: % of adults engaged in regular physical activity <sup>6</sup> .....	N/A	N/A	N/A	N/A	N/A	15.0	17.1	19.1	N/A	N/A
<b>Education:</b>											
47	High school graduates (% of population 25 and older) .....	44.6	55.2	68.6	77.6	81.7	84.1	85.2	86.7	87.1	N/A
48	Percentage of 18–24 year olds with a high school diploma .....	59.9	78.8	80.9	81.7	80.8	81.9	82.9	84.3	N/A	N/A
49	Percentage of 18–24 year olds enrolled in college .....	N/A	25.7	25.6	32.0	34.3	35.5	38.9	41.3	N/A	N/A
50	College graduates (% of population 25 and older) .....	8.4	11.0	17.0	21.3	23.0	25.6	27.6	29.5	29.9	N/A
National Assessment of Educational Progress <sup>7</sup>											
51	Reading 17-year olds .....	N/A	N/A	283	288	286	285	284	N/A	N/A	N/A
52	Mathematics 17-year olds .....	N/A	N/A	297	303	305	306	305	N/A	N/A	N/A
<b>Housing:</b>											
53	Percentage of families with children with inadequate housing <sup>8</sup> .....	N/A	N/A	9	9	7	7	5	5	N/A	N/A
54	Percentage of families with children with crowded housing .....	N/A	N/A	9	7	7	7	6	6	N/A	N/A
55	Percentage of families with children with costly housing <sup>9</sup> .....	N/A	N/A	17	25	28	28	34	39	N/A	N/A
<b>Crime:</b>											
56	Violent crime rate (per 100,000 population 12 and older) <sup>10</sup> .....	N/A	N/A	4,940	4,410	4,610	2,740	2,100	1,690	1,490	N/A
57	Murder rate (per 100,000 population) <sup>11</sup> .....	5.1	7.8	10.2	9.4	8.2	5.5	5.6	5.0	4.8	N/A
<b>Families:</b>											
58	Births to unmarried women age 15–17 (per 1,000) .....	N/A	N/A	20.6	29.6	30.1	23.9	19.7	19.3	N/A	N/A
59	Children living with mother only (% of all children) .....	9.2	11.6	18.6	21.6	24.0	22.3	23.4	24.4	25.2	N/A
<b>Civic Engagement:</b>											
60	Individual charitable giving per capita (2011 dollars) .....	321	460	489	559	529	808	863	778	782	N/A
61	Percentage of Americans volunteering <sup>12</sup> .....	N/A	N/A	N/A	20.4	N/A	N/A	27.0	26.8	26.3	N/A
62	Voting for President by election year (% eligible population) <sup>13</sup> .....	(1960)	(1968)	(1972)	(1976)	(1980)	(1984)	(1988)	(2004)	(2008)	(2012)
		63.8	61.5	56.2	54.8	54.2	55.2	52.8	60.1	61.7	N/A

<sup>1</sup> The 2010 and 2011 values are projected, the last actual data are for 2009.

<sup>2</sup> The 4:3:1:3:3 series consisting of 4 doses (or more) of diphtheria, tetanus toxoids, and pertussis (DTP) vaccines, diphtheria and tetanus toxoids (DT), or diphtheria, tetanus toxoids, and any acellular pertussis (DTaP) vaccines; 3 doses (or more) of poliovirus vaccines; 1 dose (or more) of any measles-containing vaccine; 3 doses (or more) of Haemophilus influenzae type b (Hib) vaccines; and 3 doses (or more) of hepatitis B vaccines.

<sup>3</sup> Data for 2009 are preliminary.

<sup>4</sup> BMI refers to body mass index. A BMI over 30 is the criterion for obesity used by the Centers for Disease Control and Prevention.

<sup>5</sup> Data are interpolated. Percentage of high school students who had five or more drinks in a row at least once within the two weeks prior to the survey.

<sup>6</sup> Participation in leisure-time aerobic and muscle-strengthening activities that meet the 2008 Federal physical activity guidelines for adults 18 years of age and over.

<sup>7</sup> Data are interpolated. Actual survey years were 1973, 1978, 1982, 1986, 1990, 1992, 1994, 1996, 1999, 2004, and 2008.

<sup>8</sup> Inadequate housing has moderate to severe physical problems, usually poor plumbing or heating or upkeep problems. Some data are interpolated.

<sup>9</sup> Expenditures for housing and utilities exceed 30 percent of reported income. Some data are interpolated.

<sup>10</sup> Includes crimes both reported and not reported to law enforcement. Offenses include homicide, rape, robbery, aggravated assault and simple assault.

<sup>11</sup> Based on reported crimes. Not all crimes are reported, and the fraction that go unreported may have varied over time, preliminary data for 2008.

<sup>12</sup> Data from 1974, 1989, and since 2005 are drawn from the Current Population Survey.

<sup>13</sup> As computed by Professor Michael McDonald, George Mason University, after adjusting the population for those not eligible to vote in Presidential elections.

Table 10-3. SOURCES FOR ECONOMIC AND SOCIAL INDICATORS

Indicator:	Source:
<b>Economic, Environmental, and Energy Indicators (Table 10-1):</b>	
Real GDP per person .....	U.S. Department of Commerce, Bureau of Economic Analysis, National Economic Accounts Data.
Real disposable income per capita .....	U.S. Department of Commerce, Bureau of Economic Analysis, National Economic Accounts Data.
Real median income: all households .....	U.S. Census Bureau, Housing and Household Economic Statistics Division
Poverty rate .....	U.S. Census Bureau, Housing and Household Economic Statistics Division
Food-insecure households .....	U.S. Census Bureau, Current Population Survey Food Security Supplement; tabulated by U.S. Department of Agriculture, Economic Research Service
Civilian unemployment rate .....	U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.
Unemployment plus marginally attached and underemployed .....	U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.
Employment-population ratio .....	U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.
Payroll employment .....	U.S. Department of Labor, Bureau of Labor Statistics, Current Employment Statistics program.
Income share of lower 60% of all households .....	U.S. Census Bureau, Housing and Household Economic Statistics Division
Income share of top 1% of all taxpayers .....	Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998" Quarterly Journal of Economics, 118(1), 2003, 1-39 (tables and figures updated to 2008, July 2010)
Net national saving rate .....	U.S. Department of Commerce, Bureau of Economic Analysis, National Economic Accounts Data.
Personal Saving Rate .....	U.S. Department of Commerce, Bureau of Economic Analysis, National Economic Accounts Data.
Average household net worth .....	Board of Governors of the Federal Reserve System, Flow of Funds Accounts of the United States, and U.S. Census Bureau, Housing and Economic Statistics Division.
Median wealth of households aged 55-64 .....	Board of Governors of the Federal Reserve System, 2009 Survey of Consumer Finances Chartbook.
R&D spending .....	National Science Foundation, Division of Science Resources Statistics, National Patterns of R&D Resources
Patents issued to U.S. residents .....	U.S. Patent and Trademark Office, Electronic Information Products Division, Patent Technology Monitoring Team, submissions to the World Intellectual Property Organization.
Multifactor productivity .....	U.S. Department of Labor, Bureau of Labor Statistics, Major Sector Productivity Program.
Nonfarm output per hour .....	U.S. Department of Labor, Bureau of Labor Statistics, Major Sector Productivity Program.
Bridges that are structurally deficient or functionally obsolete .....	U.S. Federal Highway Administration, Office of Bridge Technology, "National Bridge Inventory."
Real net stock of fixed assets and consumer durable goods .....	U.S. Department of Commerce, Bureau of Economic Analysis, National Economic Accounts Data.
Carbon Monoxide .....	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
Ground Level Ozone .....	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
Lead .....	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
Nitrogen Dioxide .....	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
PM10 .....	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
PM 2.5 .....	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
Sulfur Dioxide .....	U.S. Environmental Protection Agency, Office of Air and Radiation, Air Trends
Population served by secondary treatment or better .....	U.S. Environmental Protection Agency, Clean Watersheds Needs Survey 2008 Report to Congress, June 10, 2010 (includes a projection for 2028) EPA-832-R-10-002.
Net greenhouse gas emissions .....	U.S. Environmental Protection Agency, 2010 Inventory of Greenhouse Gases Emissions and Sinks: 1990-2008.
Energy consumption per capita .....	U.S. Energy Information Administration, Annual Energy Review 2009, August 19, 2010 energy overview table 1.5.
Energy consumption from renewable sources .....	U.S. Energy Information Administration, Independent Statistics and Analysis
<b>Health, Education, and Other Social Indicators (Table 10-2):</b>	
Total national health expenditures .....	Centers for Medicare and Medicaid Services, National Health Expenditures Data, January 2011.
Percentage of population without health insurance .....	U.S. Census Bureau, Housing and Household Economic Statistics Division
% of children age 19-35 months with recommended immunizations .....	Childstats.gov, Forum on Child and Family Statistics
Infant mortality .....	Centers for Disease Control and Prevention, National Vital Statistics Report
Low birthweight percentage of babies .....	Centers for Disease Control and Prevention, National Vital Statistics Report
Life expectancy at birth .....	Centers for Disease Control and Prevention, National Vital Statistics Report
Cigarette smokers (% population 18 and older) .....	Health United States 2010, U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics
Obesity (% of population with BMI over 30) (d) .....	Health United States 2010, U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics
% high school students engaged in heavy drinking .....	Health United States 2010, U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics
% of adults engaged in regular physical activity .....	Health United States 2010, U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics
High school graduates (% of population 25 and older) .....	U.S. Census Bureau, Current Population Survey
Percentage of 18-24 year olds with a high school diploma .....	U.S. Census Bureau, Current Population Survey
Percentage of 18-24 year olds enrolled in college .....	U.S. Census Bureau, Current Population Survey
College graduates (% of population 25 and older) .....	U.S. Census Bureau, Current Population Survey
NAEP: Reading 17-year olds .....	National Assessment of Educational Progress, National Center for Education Statistics

**Table 10–3. SOURCES FOR ECONOMIC AND SOCIAL INDICATORS—Continued**

Indicator:	Source:
NAEP: Mathematics 17-year olds .....	National Assessment of Educational Progress, National Center for Education Statistics
Percentage of families with children with inadequate housing .....	U.S. Census Bureau, American Housing Survey. Tabulated by U.S. Department of Housing and Urban Development
Percentage of families with children with crowded housing .....	U.S. Census Bureau, American Housing Survey. Tabulated by U.S. Department of Housing and Urban Development
Percentage of families with children with costly housing .....	U.S. Census Bureau, American Housing Survey. Tabulated by U.S. Department of Housing and Urban Development
Violent crime rate (per 100,000 population 12 and older) .....	U.S. Department of Justice, Bureau of Justice Statistics, Violent Crime Trends
Murder rate (per 100,000 population) .....	U.S. Department of Justice, Federal Bureau of Investigation, Criminal Justice Information Services Division
Births to unmarried women age 15-17 (per 1,000) .....	Centers for Disease Control and Prevention, National Vital Statistics Report
Children living with mother only .....	Annual Social and Economic Supplement to the Current Population Survey, Detailed Poverty Tabulations various
	years
Individual Charitable Giving .....	Statistical Abstract 2012, Center on Philanthropy at Indiana University, Giving USA.
Percentage of Americans volunteering .....	Corporation for National and Community Service, "Volunteer Growth in America: A Review of Trends since 1974" based on the Current Population Survey.
Voting for President by election year (% eligible population) .....	The United States Elections Project, Dr. Michael McDonald, George Mason University, Fairfax, Virginia.



## 11. IMPROVING THE FEDERAL WORKFORCE

The United States has overcome great challenges throughout our history because Americans of every generation have stepped forward to aid their Nation through service, both in civilian government and in the Uniformed Services. Today's Federal public servant carries forward that proud American tradition. Whether it is defending our homeland, restoring confidence in our financial system and supporting an historic economic recovery effort, providing health care to our veterans, or searching for cures to the most vexing diseases, we are fortunate to be able to rely upon a skilled workforce committed to public service.

A high-performing government depends on an engaged, well-prepared, and well-trained workforce with the right set of skills for the missions the government needs to achieve. However, tight fiscal resources, rapidly changing problems, and new technologies that change the way a program can be delivered are all challenges the Federal workforce must address. This chapter discusses trends in Federal employment, composition, and compensation, and presents the Administration's plans for achieving the talented Federal workforce needed to serve the American people effectively and efficiently.

### Trends in Federal Employment

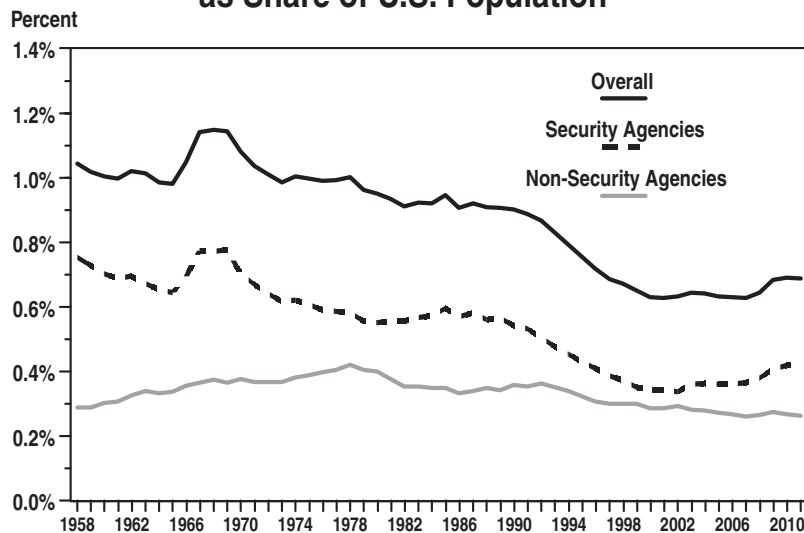
The size of the Federal civilian workforce relative to the country's population has declined dramatically over

the last several decades, notwithstanding occasional upticks due, for example, to military conflicts and the enumeration of the Census. In the 1950s and 1960s, there were on average 92 residents for every Federal worker. In the 1980s and 1990s, there were on average 106 residents for every Federal worker. By 2011, the ratio had increased to 145 residents for every Federal worker. Since the 1950s and 1960s, the U.S. population increased by 76 percent, the private sector workforce surged 133 percent, while the size of the Federal workforce rose just 11 percent. Relative to the private sector, the Federal workforce is less than half the size it was back in the 1950s and 1960s. The picture that emerges is one of a Federal civilian workforce whose size has significantly shrunk compared to the size of the overall U.S. population, the private sector workforce, and the size of Federal expenditures.

Chart 11-1 shows Federal civilian employment (excluding the U.S. Postal Service) as a share of the U.S. resident population from 1958 to 2011. The chart shows the overall decline noted above in both security and non-security agencies.

Except for employment peaks associated with the decennial census, Federal employment, in absolute terms, increased slightly in the 1980s and then dropped in the 1990s. This overall downward trend began to reverse itself in 2001, following the September 11 attack. Following that tragic event, the Federal workforce expanded to deal with national security and homeland safety issues

**Chart 11-1. Federal Civilian Workforce as Share of U.S. Population**



Source: Office of Personnel Management.

Notes: Security agencies include the Department of Defense, the Department of Homeland Security, the Department of State, and the Department of Veterans Affairs. Nonsecurity agencies include the remainder of the Executive Branch.



and to serve our veterans. Between 2001 and 2011, security agency employment grew, while non-security employment declined. For example, civilians working for the Department of the Army grew by more than 60,000, with a similar level of increase in people working for the Veterans Health Administration. Customs and Border Protection also grew more than 30,000 to keep our citizens safe at home.

Following this decade of growth, total Federal employment levels flattened out with minimal year-to-year shifts in 2012 and 2013. Table 11-2 shows actual Federal civilian full-time equivalent (FTE) employment levels in the Executive Branch by agency for 2010 and 2011, with estimates for 2012 and 2013. Estimated employment levels for 2013 result in nearly flat levels – a 0.1 percent increase when compared to the prior year. Capped levels of budget authority enacted through the Budget Control Act (BCA) and in the 2013 Budget are having a direct impact on FTE levels in all agencies. Among the 34 departments and agencies presented in Table 11-2, increases exist in less than one-third. Among the 15 Cabinet agencies, increases of more than 1 percent exist at only four – the Departments of Veterans Affairs (VA), Commerce (DOC), Health and Human Services (HHS), and the Treasury.

In security agencies, limited increases in VA and the Department of Homeland Security correlate with increased demand for services in veterans' medical care and continued emphasis on strengthening air travel safety and border protection. Even prior to the enactment of the BCA, in January 2011, the Department of Defense (DOD) initiated a policy to reduce staffing with the goal of holding to 2010 levels for most of the Department. The graduated reductions estimated by DOD in both 2012 and 2013 seek to achieve this goal while minimizing the impact on the workforce and the communities in which those workers live.

Beyond the security agencies, 2013 increases in non-security agencies are narrowly focused and are frequently supported by congressionally-authorized fees, not taxpayer dollars. Increased receipts from fees support timely commercialization of innovative technologies through faster and higher-quality patent reviews at the Patent and Trade Office of DOC, stronger food safety measures at the Food and Drug Administration of HHS, and enhancements to create stronger, more stable financial markets consistent with the Wall Street Reform Act. Increases in the category listed as "All other small agencies" in Table 11-2 are similarly driven by efforts to reform Wall Street and protect its customers. Commitments to activate new Federal prisons already constructed with funding appropriated as early as 2001 and as recently as 2010, result in limited necessary personnel increases at the Department of Justice in 2012 and 2013. And stepping up Internal Revenue Service (Treasury) program integrity efforts to ensure companies and individuals are paying their fair share is an investment that more than pays for itself and will result in a five-to-one increase in tax revenues.

Beneath many of the staffing topline are programs that pursue aggressive actions to reduce and reallocate staff from lower to higher priority programs. Some agen-

cies have imposed hiring freezes, others are using replacement ratios to allow fewer hires than separations, and many are offering early retirement and separation incentives. Across the Government, agencies are embracing a variety of workforce reduction tools to bring their personnel levels down. These complement other aggressive cost-saving measures across all agencies such as real estate closures, consolidation of back-office functions, and strategic sourcing, as well as agency-specific initiatives, such as the Department of Agriculture's Blueprint for Stronger Service to streamline operations, launched in January 2012, which involves consolidating more than 200 offices across the country while ensuring that the most vital services the offices provide continue.

### Federal Pay Trends

After more than a decade when the percentage increase in annual Federal pay raises did not keep pace with the percentage increase in private sector pay raises, Congress passed the Federal Employees Pay Comparability Act of 1990 (FEPCA) pegging Federal pay raises, as a default, to changes in the 15-month-lagged Employment Cost Index (ECI) series of wage and salaries for private industry workers, and to locality pay adjustments. The ECI measures private sector pay, holding constant industry and occupation composition. The law gives the President the authority to propose alternative pay adjustments for both base and locality pay. Presidents have regularly proposed alternative pay plans. Chart 11-2 shows how the Federal pay scale has compared to the ECI since 1990.

In late 2010, as one of several steps the Administration took to put the Nation on a sustainable fiscal path, the President proposed and Congress enacted a two-year freeze on across-the-board pay adjustments for civilian Federal employees. This has created structural savings in the Budget of \$60 billion over 10 years. The President also issued a memorandum directing agencies to freeze pay schedules and forgo general pay increases for civilian Federal employees in administratively determined pay systems.

For 2013, the President is proposing a 0.5 percent pay increase. While modest, the Administration's decision to propose an increase in pay for civilian Federal employees reflects the understanding that while the continuation of a pay freeze was unsustainable, the tight fiscal environment required a responsible approach that enables the investment needed to spur jobs and economic growth for decades to come. This pay increase proposal permits savings of approximately \$28 billion over 10 years and \$2 billion in 2013 within the BCA caps, reallocated to priorities and services the American people depend on and that would not otherwise have been available under the spending caps. Proposing a pay increase below the level of the private sector (or ECI) was not taken lightly, given the two-year pay freeze in 2011 and 2012 -- but recognizes the real constraints of the current budget situation.

The 2013 Budget also includes a deficit reduction proposal that would dedicate an additional 1.2 percent of employee salary (phased-in at 0.4 percent over three years) for contri-

butions toward retirement benefits. This change in employee contribution levels would not change the amount of each Federal employee's pension benefit, but would result in \$21 billion over 10 years in mandatory savings.

### Composition of the Federal Workforce and Factors Affecting Federal Pay

Federal worker compensation receives a great deal of attention, in particular, in comparison to that of private sector workers. Comparisons of the pay of Federal employees and private sector employees, for example, should account for factors affecting pay, such as differences in skill levels, complexity of work, scope of responsibility, size of organization, location, experience level, and exposure to personal danger. Some of the factors affecting pay are discussed below.

**Type of occupation.** The last half century has seen significant shifts in the composition of the Federal workforce, with related effects on pay. Fifty years ago, most white-collar Federal employees performed clerical tasks, such as posting Census figures in ledgers and retrieving taxpayer records from file rooms. Today their jobs are vastly different, requiring advanced skills to serve a knowledge-based economy. Professionals such as doctors, engineers, scientists, statisticians, and lawyers now make up a large portion of the Federal workforce. Between 1981 and 2011, the proportion of the Federal workforce in clerical occupations fell from 19.4 percent to 5.1 percent of the workforce, and the proportion of blue-collar workers fell from 22.0 percent to 9.7 percent.

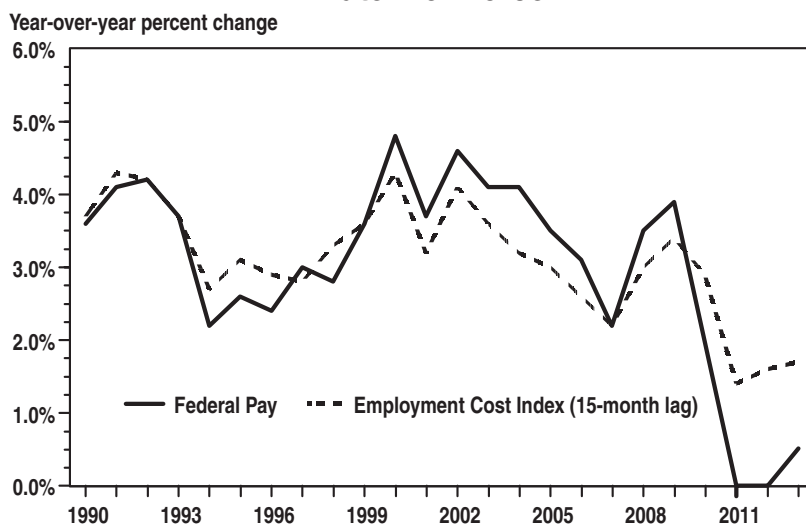
Today, a large number of Federal employees must manage highly sensitive tasks that require great skill, experience, and judgment. Federal employees increasingly need

sophisticated management and negotiation skills to affect change, not just across the Federal Government, but also with other levels of government, not-for-profit providers, and for-profit contractors. Using data from the Current Population Survey 2007-2011 of full-time, full-year workers, Table 11-1 breaks all Federal and private sector jobs into 22 occupation groups. That breakdown shows that Federal and private sector workers do very different types of work. More than half (55 percent) of Federal workers work in the nine highest-paying occupation groups as judges, engineers, scientists, nuclear plant inspectors, etc., compared to about a third (33 percent) of private sector workers in those same nine highest paying occupation groups. In contrast, 46 percent of private sector workers work in the seven lowest-paying occupation groups as cooks, janitors, service workers, clerks, laborers, manufacturing workers, etc. About 27 percent of Federal workers work in those seven lowest-paying occupation groups.

**Education level.** The size and complexity of much Federal work necessitates a highly educated workforce whether that work is analyzing security and financial risks, forecasting weather, planning bridges to withstand extreme weather events, conducting research to advance human health and energy efficiency, or advancing science to fuel future economic growth. Chart 11-3 presents the comparative differences in the education level of the Federal civilian and private sector workforce. About 21 percent of Federal workers have a master's degree, professional degree, or doctorate versus only 9 percent in the private sector. Only one-in-five Federal employees has not attended college, whereas 41 percent of workers in the private sector have not attended college.

**Size of organization and responsibilities.** Another important difference between Federal workers and pri-

Chart 11-2. Pay Raises for Federal vs. Private Workforce



Source: Public Laws, Executive Orders, and the Bureau of Labor Statistics.

Notes: Federal pay is for civilians and includes base and locality pay. Employment Cost Index is the wages and salaries, private industry workers series.

**Table 11–1. OCCUPATIONS OF FEDERAL AND PRIVATE SECTOR WORKFORCES**  
(Grouped by Average Private Sector Salary)

Occupational Groups	Percent	
	Federal Workers	Private Sector Workers
<b>Highest Paid Occupations Ranked by Private Sector Salary</b>		
Lawyers and judges .....	1.7%	0.6%
Engineers .....	4.1%	1.9%
Scientists and social scientists .....	4.8%	0.6%
Managers .....	11.2%	13.2%
Doctors, nurses, psychologists, etc. ....	7.4%	5.1%
Miscellaneous professionals .....	15.1%	8.0%
Administrators, accountants, HR personnel .....	7.0%	2.6%
Pilots, conductors, and related mechanics .....	2.0%	0.8%
Inspectors .....	1.2%	0.3%
<b>Total Percentage</b> .....	<b>54.5%</b>	<b>33.1%</b>
<b>Medium Paid Occupations Ranked by Private Sector Salary</b>		
Sales including real estate, insurance agents .....	1.0%	6.6%
Other miscellaneous occupations .....	3.2%	4.4%
Automobile and other mechanics .....	1.8%	3.0%
Law enforcement and related occupations .....	8.5%	0.8%
Office workers .....	2.5%	6.3%
Social workers .....	1.5%	0.5%
<b>Total Percentage</b> .....	<b>18.5%</b>	<b>21.5%</b>
<b>Lowest Paid Occupations Ranked by Private Sector Salary</b>		
Drivers of trucks and taxis .....	0.7%	3.4%
Laborers and construction workers .....	4.4%	10.4%
Clerks .....	14.2%	11.4%
Manufacturing .....	2.5%	7.8%
Other miscellaneous service workers .....	2.5%	6.3%
Janitors and housekeepers .....	1.6%	2.4%
Cooks, bartenders, bakers, and wait staff .....	0.9%	4.0%
<b>Total Percentage</b> .....	<b>26.8%</b>	<b>45.7%</b>

Source: 2007–2011 Current Population Survey.

Notes: Federal workers exclude the military and Postal Service, but include all other Federal workers in the Executive, Legislative, and Judicial Branches. However, the vast majority of these employees are civil servants in the Executive Branch. Private sector workers exclude the self-employed. Neither category includes state and local government workers. This analysis is limited to full-time, full-year workers, i.e. those with at least 1,500 annual hours of work.

private sector workers is the average size of the organizations in which they work. Federal agencies are large and often face challenges of enormous scale, such as distributing benefit payments to over 60 million Social Security and Supplemental Security Income beneficiaries each year, providing medical care to 8.8 million of the Nation's veterans, and managing defense contracts costing billions of dollars. Workers from large firms (those with 1,000 or more employees) are paid about 14 percent more than workers from small firms (those with fewer than 100 employees), even after accounting for occupational type, level of education, and other characteristics.

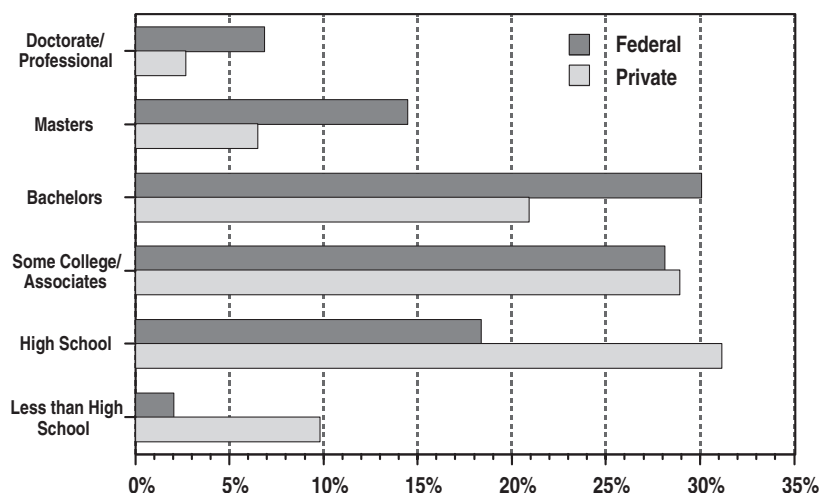
**Demographic characteristics.** Federal workers tend to have demographic characteristics associated with higher pay in the private sector. They are more experienced, older and live in higher cost metropolitan areas. For example, 22 percent of Federal workers are 55 or older – up from 15 percent 10 years ago and significantly

more than the 18 percent in the private sector. Chart 11-4 shows the difference in age distribution between Federal and private sector workers.

### Challenges

With the backdrop of tightening fiscal constraints, the Federal Government faces specific human capital challenges, including an aging and retiring workforce and a personnel system that requires further modernization. If the Government loses top talent, experience, and institutional memory through retirements, but cannot recruit, retain, and train highly qualified workers, Government performance suffers. While the age distribution and potential for a large number of retiring workers poses a challenge, it also creates an opportunity to streamline the workforce and to infuse it with new – and in some cases lower-cost – workers excited about Government service

**Chart 11-3. Education Level Distribution in Federal vs. Private Workforce**



Source: 2007-2011 Current Population Survey.

Notes: Federal workers exclude the military and Postal Service, but include all other Federal workers in the Executive, Legislative, and Judicial Branches. However, the vast majority of these employees are civil servants in the Executive Branch. Private sector workers exclude the self-employed. Neither category includes state and local government workers. This analysis is limited to full-time, full-year workers, i.e. those with at least 1,500 hours of work.

and equipped with strong technology skills, problem-solving ability, and fresh perspectives to tackle problems that Government must address.

To address issues in the long-term, Federal managers and employees need to rely on a modernized personnel system. To that end, the Administration proposed to the Joint Select Committee on Deficit Reduction that the Congress establish a Commission on Federal Public Service Reform comprised of Members of Congress, representatives from the President's National Council on Federal Labor-Management Relations, members of the private sector, and academic experts. The Commission would develop recommendations on reforms to modernize Federal personnel policies and practices within fiscal constraints, including, but not limited to compensation, staff development and mobility, and personnel performance and motivation.

This section discusses two major Federal workforce challenges, and the following section describes actions this Administration is taking to address those challenges.

### ***Aging Workforce***

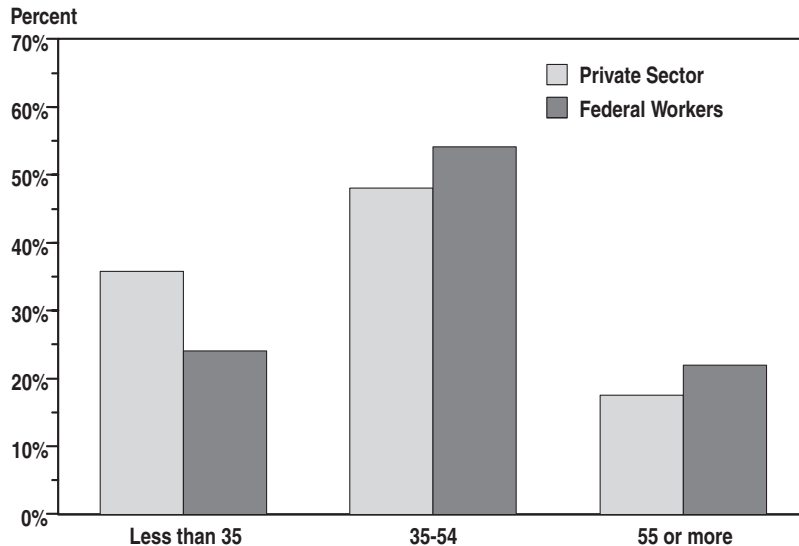
As discussed above, the Federal workforce of 2011 is older than Federal workforces of past decades and older than the private sector workforce. The number of Federal retirements is on a slow and steady increase, rising from 95,425 in 2009 to 96,133 in 2010 and 98,731 in 2011.

Given these demographics, the Federal Government faces two immediate challenges: preparing for retirements to maximize knowledge transfer from one generation to the next, and hiring and developing the next gen-

eration of the Government workforce to accomplish the varied and challenging missions the Federal Government must deliver.

### ***Developing and Engaging Personnel to Improve Performance***

One well-documented challenge in any organization is managing a workforce so it is engaged, innovative, and committed to continuous improvement, while at the same time dealing with poor performers who fail to improve as needed. Federal employees are generally positive about the importance of their work and express a high readiness to put in extra effort to accomplish the goals of their agencies. Results from the Federal Employee Viewpoint Survey (EVS) indicate 92 percent of respondents answer positively to the statement "The work I do is important." and nearly 97 percent of respondents answer positively to the statement "When needed I am willing to put in the extra effort to get a job done." However in contrast, Federal employees have repeatedly identified the inability to deal with poor performers as an area of weakness over the past 10 years. In 2011, only 31 percent of employees sampled in the EVS answered positively that "In my work unit, steps are taken to deal with a poor performer who cannot or will not improve." In addition, only 41 percent agreed that "creativity and innovation are rewarded". Over the past year, the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) have jointly met with agencies to review agency progress on their action plans to address weaknesses identified through the EVS.

**Chart 11-4. Federal vs. Private Age Distribution**

Source: 2011 Current Population Survey (covering calendar year 2010).  
 Notes: Federal workers exclude the military and Postal Service, but include all other Federal workers in the Executive Branch. Private sector workers exclude the self-employed. Neither category includes state and local government workers. This analysis is limited to full-time, full-year workers, i.e. those with at least 1,500 annual hours of work.

### **Progress Improving Employee Performance and Human Capital Management**

The Administration has made considerable progress improving employee performance and human capital management through multiple efforts, including: strengthened labor-management partnerships, better alignment between employee performance and organizational performance objectives, increased agency use of personnel data for decision-making, better hiring practices, heightened attention to a diverse and inclusive workforce, and a new Senior Executive Service (SES) performance appraisal system.

#### ***Strengthening Labor-Management Relations***

On December 9, 2009, the President issued Executive Order 13522 “Creating Labor-Management Forums to Improve the Delivery of Government Services”. Cooperative labor-management forums have been formed across the Federal Government to resolve workplace issues and improve mission performance and service delivery to the American public. The Administration developed guidelines to help each forum define its objectives and measure results along three dimensions: mission accomplishment, employee perceptions, and labor-management relations. Training opportunities have been provided to support these efforts. For example, VA and the Federal Labor Relations Authority made web-based training available at no cost across the Executive Branch.

In addition, a working group of the National Council on Federal Labor-Management Relations partnered with members of the Chief Human Capital Officers Council to recommend a new employee performance manage-

ment framework, referred to as the Goals-Engagement-Accountability-Results framework. Elements of this framework are now being tested by several pilot agencies, including VA, OPM, the Coast Guard, the Department of Housing and Urban Development, and the Department of Energy.

#### ***Developing and Using Personnel Analytics***

The Administration is committed to strengthening Federal agencies’ capacity to analyze human resources data to address workplace problems, improve productivity, and cut costs. The Federal Government began annual administration of the EVS in 2010 to make it more useful as a managerial tool to help agencies identify areas of personnel management strength and weakness. In 2011, to enhance its value, the survey was administered in a way that provided more managers with EVS information specific to their organizational unit. In 2012, OPM will survey all permanent civilian employees, rather than sampling as it did in 2011, to increase further agencies’ ability to pinpoint areas of strength and weakness. In addition, Performance.gov provides agencies and the public a window on key human resources data – including Government-wide and agency-specific hiring times, applicant and manager satisfaction, employee engagement and retention, diversity and disability, and veterans hiring and employment.

#### ***Building a Workforce with the Skills Necessary to Meet Agency Missions***

The demands of the workplace necessitate new and evolving skill sets in the workforce of the Federal Government. The Government Accountability Office has



identified critical employee skills gaps as an area of high risk. As a result, the Administration has established a Cross-Agency Priority Goal in this area and OPM will lead the multiagency effort to close critical skills gaps across the Federal Government. OPM and the Chief Human Capital Officers Council will develop and implement a Government-wide plan to achieve this goal.

This effort will build on progress already being made closing critical skills gaps in acquisition and information technology (IT). Spending on Federal contracts nearly doubled between 2001 and 2008, while the acquisition workforce responsible for negotiating, awarding, and managing these contracts remained essentially flat. While private sector contractors provide a wide range of services to help Federal employees carry out agency missions and operations, such as scientific research, IT support, and construction services, the lag in building a skilled acquisition workforce that kept pace with contracting requirements contributed to ineffective and wasteful contracting practices and imbalances in our relationship with contractors. Over the past three years, this Administration has worked to reverse this trend and restore accountability and fiscal responsibility. Through a focus on building the capacity and capability of the acquisition workforce and other key initiatives, the Federal Government reduced spending in Government contracting in 2010 for the first time in 13 years, reduced the use of many high-risk contracting practices, and made other significant improvements to the Federal contracting process. Continuing these and other efforts to increase efficiencies in Federal contracting -- while achieving further savings through the Campaign to Cut Waste -- depends on a strong, well-trained acquisition workforce, and the Administration continues to undertake the human capital planning and actions needed to improve Federal contracting.

The Administration is also committed to building a more efficient and effective 21<sup>st</sup> Century Government for the American people through the strategic use of IT, and strengthening the IT workforce is a key element in its plan to reform Federal IT management. To ensure we have experienced and talented managers to oversee large, complex IT investments and maximize the return on taxpayer dollars at every step in the process, the Administration created a new role for IT program managers with rigorous requirements. In addition, the Presidential Technology

Fellows Program was launched to reduce the barriers to entering public service and to provide highly talented technology professionals access to unique career opportunities in a variety of Federal agencies. The Entrepreneur-in-Residence program was also initiated, which enables the Government to capitalize on subject matter experts across various communities to bring innovative practices and technologies into the Government.

### ***A Diverse and Inclusive Workforce***

The American people are best served by a Federal workforce that reflects the rich diversity of the populace and encourages collaboration, fairness, and innovation. Pursuant to the President's Executive Order 13583, signed in August 2011, the first Government-wide Diversity and Inclusion Strategic Plan was issued and provides agencies with the shared goals of workforce diversity, workplace inclusion, and sustainability. The Strategic Plan efforts will focus on outreach, recruitment, and career development to draw from all segments of society, including those who are underrepresented, as well as on the retention, inclusion, and leadership development of all Federal employees.

### ***New Senior Executive Service Performance Appraisal System***

In January 2012, OPM and OMB issued a standard Government-wide SES performance appraisal system to meet the SES performance management needs of all agencies and their SES employees. An interagency work group developed this system after examining a number of current SES performance management systems at several agencies and benchmarking with the private sector through the President's Management Advisory Board, a group of private sector leaders that advise the Government on management best practices. The new system will provide a consistent and uniform framework for agencies to communicate expectations and evaluate the performance of SES members, particularly centering on the role and responsibility of SES employees to provide executive leadership. The new system will also provide the necessary flexibility and enable appropriate customization. Agencies will have the opportunity to transition to this new system over the next year or two as their current system certifications expire, or earlier if desired.

**Table 11-2. FEDERAL CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH**  
(Civilian employment as measured by FTEs in thousands, excluding the Postal Service)

Agency	Actual		Estimate		Change: 2012 to 2013	
	2010	2011	2012	2013	FTE	Percent
<b>Cabinet agencies:</b>						
Agriculture .....	96.3	95.9	93.3	92.3	-1.0	-1.1%
Commerce .....	123.3	41.3	40.5	42.0	1.5	3.7%
Defense .....	741.4	771.3	764.3	756.8	-7.5	-1.0%
Education .....	4.1	4.4	4.3	4.3	0.0	0.0%
Energy .....	16.1	16.1	16.5	16.4	-0.1	-0.6%
Health and Human Services .....	66.1	68.8	70.1	71.5	1.4	2.0%
Homeland Security .....	173.0	179.5	187.5	188.9	1.4	0.7%
Housing and Urban Development .....	9.5	9.5	9.4	9.4	0.0	0.0%
Interior .....	70.9	70.5	70.4	69.8	-0.6	-0.9%
Justice .....	113.4	116.3	117.9	118.6	0.7	0.6%
Labor .....	16.9	16.9	17.4	17.4	0.0	0.0%
State .....	31.6	32.4	32.4	32.5	0.1	0.3%
Transportation .....	57.2	57.4	57.7	57.9	0.2	0.3%
Treasury .....	111.9	110.7	108.2	111.8	3.6	3.3%
Veterans Affairs .....	284.8	295.7	302.3	306.6	4.3	1.4%
<b>Other agencies—excluding Postal Service:</b>						
Broadcasting Board of Governors .....	1.9	1.9	2.0	1.9	-0.1	-5.0%
Corps of Engineers—Civil Works .....	23.6	23.7	23.0	22.7	-0.3	-1.3%
Environmental Protection Agency .....	17.2	17.3	17.1	17.1	0.0	0.0%
Equal Employment Opportunity Comm .....	2.4	2.5	2.4	2.4	0.0	0.0%
Federal Deposit Insurance Corporation .....	7.1	8.3	8.7	8.4	-0.3	-3.4%
General Services Administration .....	12.5	12.7	13.2	13.0	-0.2	-1.5%
International Assistance Programs .....	4.9	5.2	5.4	5.4	0.0	0.0%
National Aeronautics and Space Admin .....	18.4	18.6	18.4	18.2	-0.2	-1.1%
National Archives and Records Admin .....	3.2	3.3	3.3	3.3	0.0	0.0%
National Labor Relations Board .....	1.6	1.7	1.7	1.7	0.0	0.0%
National Science Foundation .....	1.4	1.4	1.4	1.5	0.1	7.1%
Nuclear Regulatory Commission .....	4.0	4.0	4.0	3.9	-0.1	-2.5%
Office of Personnel Management .....	4.8	5.4	5.7	5.3	-0.4	-7.0%
Railroad Retirement Board .....	1.0	1.0	1.0	0.9	-0.1	-10.0%
Securities and Exchange Commission .....	3.7	3.8	3.9	4.5	0.6	15.4%
Small Business Administration .....	3.4	3.4	3.4	3.4	0.0	0.0%
Smithsonian Institution .....	5.1	5.2	5.2	5.2	0.0	0.0%
Social Security Administration .....	67.3	67.6	65.4	63.4	-2.0	-3.1%
Tennessee Valley Authority .....	12.0	12.4	12.8	12.9	0.1	0.8%
All other small agencies <sup>1</sup> .....	15.9	16.3	17.7	18.7	1.0	5.6%
<b>Total, Executive Branch civilian employment <sup>2</sup> ...</b>	<b>2,127.9</b>	<b>2,102.4</b>	<b>2,107.6</b>	<b>2,110.0</b>	<b>2.4</b>	<b>0.1%</b>
Security FTE per P.L. 112-25 .....	1,241.7	1,290.1	1,297.9	1,296.3	-1.6	-0.1%
Nonsecurity FTE .....	886.2	812.3	809.7	813.7	4.0	0.5%

<sup>1</sup> FTE increases in the Consumer Financial Protection Bureau and the Commodity Futures Trading Commission comprise 70% of the increase between 2012 and 2013.

<sup>2</sup> Totals may not add due to rounding.

**Table 11-3. TOTAL FEDERAL EMPLOYMENT**  
(As measured by FTEs)

Description	2011 Actual	Estimate		Change: 2012 to 2013	
		2012	2013	FTE	Percent
Executive branch civilian personnel:					
Subtotal, excluding Postal Service .....	2,102,369	2,107,586	2,110,012	2,426	0.1%
Postal Service <sup>1</sup> .....	603,070	579,069	574,142	-4,927	-0.9%
Subtotal, Executive Branch civilian personnel .....	2,705,439	2,686,655	2,684,154	-2,501	-0.1%
Executive branch uniformed military personnel:					
Department of Defense <sup>2</sup> .....	1,534,424	1,499,930	1,466,664	-33,266	-2.2%
Department of Homeland Security (USCG) .....	42,429	43,088	42,540	-548	-1.3%
Commissioned Corps (DOC, EPA, HHS) .....	6,821	6,845	6,845	0	0.0%
Subtotal, uniformed military personnel .....	1,583,674	1,549,863	1,516,049	-33,814	-2.2%
Subtotal, Executive Branch .....	4,289,113	4,236,518	4,200,203	-36,315	-0.9%
Legislative Branch <sup>3</sup> .....	31,684	34,685	34,515	-170	-0.5%
Judicial Branch .....	35,381	34,914	35,164	250	0.7%
<b>Grand total</b> .....	<b>4,356,178</b>	<b>4,306,117</b>	<b>4,269,882</b>	<b>-36,235</b>	<b>-0.8%</b>

<sup>1</sup> Includes Postal Rate Commission.

<sup>2</sup> Includes activated Guard and Reserve members on active duty. Does not include Full-Time Support (Active Guard & Reserve (AGRs)) paid from Reserve Component appropriations.

<sup>3</sup> FTE data not available for the Senate (positions filled were used).

**Table 11-4. PERSONNEL COMPENSATION AND BENEFITS**  
(In millions of dollars)

Description	2011 Actual	2012 Estimate	2013 Request	Change: 2012 to 2013	
				Dollars	Percent
<b>Civilian personnel costs:</b>					
Executive Branch (excluding Postal Service):					
Direct compensation .....	175,931	177,035	179,942	2,907	1.6%
Personnel benefits .....	63,919	64,495	65,816	1,321	2.0%
Subtotal, Executive Branch .....	239,850	241,530	245,758	4,228	1.8%
Postal Service:					
Direct compensation .....	37,495	35,691	30,003	-5,688	-15.9%
Personnel benefits .....	15,126	8,697	11,711	3,014	34.7%
Subtotal .....	52,621	44,388	41,714	-2,674	-6.0%
Legislative Branch: <sup>1</sup>					
Direct compensation .....	2,154	2,110	2,132	22	1.0%
Personnel benefits .....	653	647	663	16	2.5%
Subtotal .....	2,807	2,757	2,795	38	1.4%
Judicial Branch:					
Direct compensation .....	3,226	3,206	3,249	43	1.3%
Personnel benefits .....	1,067	1,081	1,105	24	2.2%
Subtotal .....	4,293	4,287	4,354	67	1.6%
Total, civilian personnel costs .....	299,571	292,962	294,621	1,659	0.6%
<b>Military personnel costs:</b>					
Department of Defense					
Direct compensation .....	78,828	78,023	78,270	247	0.3%
Personnel benefits .....	50,940	51,346	48,163	-3,183	-6.2%
Subtotal .....	129,768	129,369	126,433	-2,936	-2.3%
All other executive branch, uniformed personnel:					
Direct compensation .....	2,455	2,506	2,721	215	8.6%
Personnel benefits .....	792	822	763	-59	-7.2%
Subtotal .....	3,247	3,328	3,484	156	4.7%
Total, military personnel costs <sup>2</sup> .....	133,015	132,697	129,917	-2,780	-2.1%
<b>Grand total, personnel costs .....</b>	<b>432,586</b>	<b>425,659</b>	<b>424,538</b>	<b>-1,121</b>	<b>-0.3%</b>
<b>ADDENDUM</b>					
<b>Former Civilian Personnel:</b>					
Retired pay for former personnel					
Government payment for Annuitants: .....	71,983	81,820	85,231	3,411	4.2%
Employee health benefits .....	10,260	10,475	11,027	552	5.3%
Employee life insurance .....	45	45	45	0	0.0%
<b>Former military personnel:</b>					
Retired pay for former personnel .....	50,997	52,685	54,759	2,074	3.9%
Military annuitants health benefits .....	8,756	9,471	9,727	256	2.7%

<sup>1</sup> Excludes members and officers of the Senate.

<sup>2</sup> Amounts in this table for military compensation reflect direct pay and benefits for all servicemembers, including active duty, guard, and reserve members.

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# BUDGET CONCEPTS AND BUDGET PROCESS

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## 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<sup>1</sup>

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 elimi-

nate 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

<sup>1</sup> 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 non-security 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](http://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

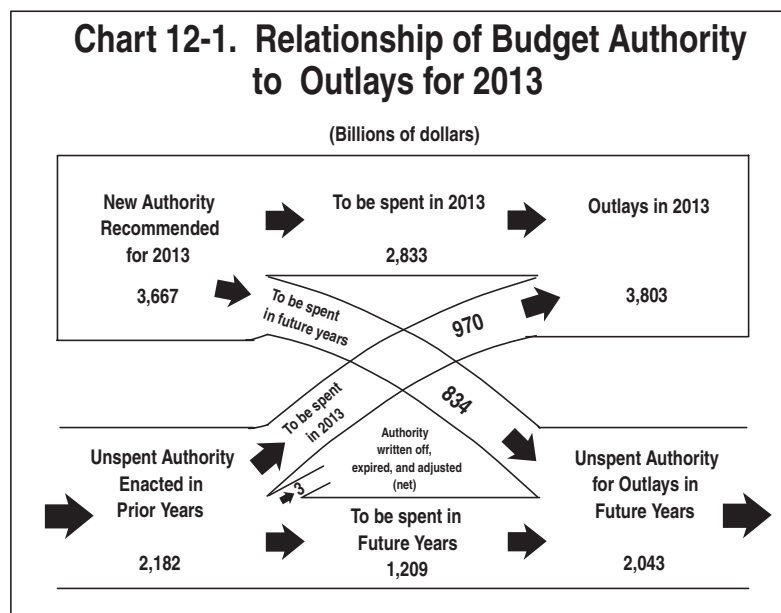
these securities on a cash basis. When a Government account is invested in Federal debt securities, the purchase price is usually close or identical to the par (face) value of the security. The budget generally records the investment at par value and adjusts the interest paid by Treasury and collected 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.<sup>2</sup> (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

<sup>2</sup> 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 common-sense 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 em-

ployment 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 stand-alone 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 dis-burses 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 outlaid. (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 dedi-

cated 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<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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 receive 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

<sup>2</sup> 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.

<sup>3</sup> Table 33-1 can be found at [www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/33\\_1.pdf](http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/33_1.pdf).

<sup>1</sup> Subsidy costs are explained in the section below on "Federal credit programs."

**Table 13-1. COMPARISON OF TOTAL, ON-BUDGET, AND OFF-BUDGET TRANSACTIONS<sup>1</sup>**  
(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

<sup>1</sup> 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.<sup>4</sup>

<sup>4</sup> 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

**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

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.<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> 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

<sup>5</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> 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.<sup>8</sup> 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.<sup>9</sup> 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

<sup>8</sup> 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.

<sup>9</sup> 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.

transactions of the Fund are not resource allocations by the Government and are therefore non-budgetary.<sup>10</sup> 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)<sup>11</sup> 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

<sup>10</sup> The administrative functions of the Federal Retirement Thrift Investment Board are carried out by Government employees and included in the budget.

<sup>11</sup> 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.<sup>12</sup>

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.<sup>13</sup> 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.

<sup>12</sup> 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.

<sup>13</sup> The National Science Foundation maintains a list of FFRDCs at [www.nsf.gov/statistics/ffrdc](http://www.nsf.gov/statistics/ffrdc).

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.<sup>14</sup> 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.<sup>15</sup>

**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.<sup>16</sup>

The estimated costs and benefits of Federal regulation have been published annually by OMB since 1997. The latest report was released in June 2011.<sup>17</sup> 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

<sup>14</sup> 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.

<sup>15</sup> 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.

<sup>16</sup> 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](http://www.reginfo.gov) and at [www.gpoaccess.gov](http://www.gpoaccess.gov).

<sup>17</sup> 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/](http://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.”<sup>18</sup> 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.<sup>19</sup>

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.<sup>20</sup>

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<sup>21</sup> 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

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OMB determined that the Consumer Financial Protection Bureau is a budgetary entity.

<sup>21</sup> 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.

<sup>18</sup> See 12 U.S.C. 225a.

<sup>19</sup> See 15 U.S.C. 3101 et seq.

<sup>20</sup> See section 1011 of Public Law 111-203, enacted on July 21, 2010.

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.<sup>22</sup> Actions by the FDIC include the Temporary Liquidity Guarantee Program and

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<sup>22</sup> 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.

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.



## 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; provid-

ing 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
<b>Original limits set in Title I of Budget Control Act of 2011:</b>										
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
<b>Enacted adjustments pursuant to section 251(b)(2) of BBEDCA:</b>										
OCO/GWOT:										
Security Category .....	+126.5	.....	.....	.....	.....	.....	.....	.....	.....	.....
Program Integrity:										
Nonsecurity Category .....	+0.5	.....	.....	.....	.....	.....	.....	.....	.....	.....
Disaster Relief :										
Security Category .....	+6.4	.....	.....	.....	.....	.....	.....	.....	.....	.....
Nonsecurity Category .....	+4.1	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Redefinition of limits pursuant to section 251A of BBEDCA:</b>										
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
<b>Revised limits included in the OMB Final Sequestration and Preview Reports:</b>										
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
<b>President's proposed changes to discretionary limits in the 2013 Budget:</b>										
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								
<b>New budget proposals:</b>										
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
<b>President's proposed limits in the 2013 Budget:</b>										
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 14-3. PROPOSED CHANGES TO THE DISCRETIONARY SPENDING LIMITS—Continued**  
(Discretionary budget authority in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>NONSECURITY CATEGORY</b>										
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
<b>DISCRETIONARY CATEGORY</b>										
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
<b>REVISED SECURITY CATEGORY</b>										
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
<b>REVISED NONSECURITY CATEGORY</b>										
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
<b>TOTAL DISCRETIONARY SPENDING</b>										
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 Sequestra-

tion 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.<sup>1</sup> 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—in 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,

<sup>1</sup> 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											11-Year Total
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
<b>Enacted Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:</b>													
<b>SSA Program Integrity<sup>1</sup></b>		<b>Section 251(b)(2)(B) of BBEDCA</b>											
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
<b>Health Care Fraud and Abuse Control Program<sup>2</sup></b>		<b>Section 251(b)(2)(C) of BBEDCA</b>											
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
<b>Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:</b>													
<b>IRS Tax Enforcement<sup>3</sup></b>													
Enforcement Base <sup>4</sup> .....	97,072	.....	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	-55,000	.....	-495,000
Allocation Adjustment <sup>5</sup> .....	14,861	.....	-421	-1,123	-2,251	-3,455	-4,694	-5,585	-6,200	-6,483	-6,661	-2,520	-39,393
<b>Unemployment Insurance Improper Payments<sup>6</sup></b>													
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

<sup>1</sup> 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.

<sup>2</sup> These savings are based on estimates from the HHS Office of the Actuary for return on investment (ROI) from program integrity activities.

<sup>3</sup> Savings for IRS are revenue increases rather than spending reductions. They are shown as negatives for consistency in presentation.

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

<sup>5</sup> 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.

<sup>6</sup> 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 discre-

tionary 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
<b>Enacted Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:</b>											
<b>SSA Program Integrity:</b>			<b>Section 251(b)(2)(B) of BBEDCA</b>								
Enforcement Base <sup>1</sup> .....	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
<i>Requested Additional Cap Funding for 2012:</i>											
BA .....		140									
Outlays .....		140									
<b>Health Care Fraud and Abuse Control Program:</b>			<b>Section 251(b)(2)(C) of BBEDCA</b>								
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
<i>Requested Additional Base &amp; Cap Funding for 2012:</i>											
BA .....		271									
Outlays .....		271									
<b>Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:</b>											
<b>IRS Tax Enforcement:</b>											
Enforcement Base <sup>1</sup> .....	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
<b>Unemployment Insurance Improper Payments:</b>											
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
<b>TOTAL:</b>											
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

<sup>1</sup> 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 fund-

ing 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
<b>Department of Health and Human Services:</b>											
Expand CMS Program Integrity Authority <sup>1</sup> .....	-161	-236	-306	-336	-376	-386	-416	-451	-461	-487	-3,616
<b>Department of the Treasury:</b>											
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
<b>Social Security Administration:</b>											
Windfall Elimination Provision/Government Pension Offset Enforcement Provision (non-PAYGO) .....	13	20	17	-211	-456	-593	-626	-566	-529	-481	-3,412
<b>Total, Mandatory and Receipt Savings .....</b>	<b>-218</b>	<b>-296</b>	<b>-371</b>	<b>-631</b>	<b>-918</b>	<b>-1,067</b>	<b>-1,132</b>	<b>-1,108</b>	<b>-1,082</b>	<b>-1,062</b>	<b>-7,885</b>
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

<sup>1</sup> 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 pre-recorded 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.<sup>2</sup> 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 con-

tain 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.

<sup>2</sup> 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](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
<b>Agriculture and Rural Development:</b>			
Emergency Farm Loans .....	.....	1	.....
Emergency Conservation Program .....	122.7	.....	.....
Watershed and Flood Prevention Operations .....	215.9	.....	.....
Emergency Forest Restoration Program .....	28.4	.....	.....
<b>Total .....</b>	<b>367</b>	<b>1</b>	<b>.....</b>
<b>Commerce, Justice, Science, and Related Agencies:</b>			
Economic Development Assistance Programs .....	200	.....	.....
<b>Energy and Water Development:</b>			
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] .....	.....	.....	.....
<b>Total .....</b>	<b>1,724</b>	<b>.....</b>	<b>.....</b>
<b>Financial Services and General Government:</b>			
SBA, Disaster Loans Program Account** .....	.....	.....	167
<b>Homeland Security:</b>			
Disaster Relief** .....	6,400	608	5,481
Disaster Assistance Direct Loan Program** .....	.....	.....	.....
<b>Total .....</b>	<b>6,400</b>	<b>608</b>	<b>5,481</b>
<b>Labor, HHS, Education:</b>			
HHS, Children and Family Services Programs, Disaster Human Service Case Management** .....	.....	2	.....
<b>Transportation and Housing:</b>			
Emergency Relief Program .....	1,662	.....	.....
Community Development Fund** .....	100	.....	.....
<b>Total .....</b>	<b>1,762</b>	<b>.....</b>	<b>.....</b>
<b>Total, Disaster Relief Funding .....</b>	<b>10,453</b>	<b>611</b>	<b>5,648</b>
<b>Total, 2012 Disaster Relief Ceiling for the Cap Adjustment .....</b>	<b>11,252</b>		
<b>Room Remaining Under the 2012 Ceiling for the Cap Adjustment .....</b>	<b>+799</b>		

\* 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 account).

**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.<sup>3</sup>

<sup>3</sup> 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.<sup>4</sup> 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.<sup>5</sup>
- *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.

<sup>4</sup> 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.

<sup>5</sup> 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.<sup>6</sup> 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-

<sup>6</sup> 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 backloading 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-de-

fense 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.<sup>7</sup>

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](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

<sup>7</sup> 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).<sup>8</sup> 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

<sup>8</sup> 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.

#### 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 rep-

resent 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.<sup>10</sup>

##### 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.<sup>9</sup>

<sup>9</sup> 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.

**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-

ministrative 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.<sup>9</sup>

<sup>10</sup> 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.

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## FEDERAL RECEIPTS

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## 15. GOVERNMENTAL RECEIPTS

During his first two years in office, President Obama signed several major tax bills designed to jumpstart the economy and provide tax relief. In September 2011, when the economy was not growing and creating jobs as it should, the President proposed the American Jobs Act, which was designed to spur the economy and give businesses confidence that if they invest and hire, there will be customers for their products and services. This Act proposed tax relief for nearly every American worker and family and tax cuts to help businesses hire and grow. At the same time, the President proposed a detailed plan to pay for this jobs bill and, when combined with the reductions in discretionary spending from the Budget Control Act of 2011, realize more than \$4 trillion in deficit reduction over the next decade. This was a balanced plan that asked everyone to do their part so no one would bear the entire burden and it called on the Congress to undertake comprehensive tax reform that lowers tax rates, closes loopholes, boosts job creation here at home, and cuts the deficit.

Some of the initiatives proposed by the President in the American Jobs Act were enacted. However, the Administration recognizes that more needs to be done to expand the economy and create jobs and that tax reform is critical to rebuilding the economy to be stronger and more stable than in the past. Two of the biggest economic challenges facing the Nation – creating jobs and reducing long-term deficits – depend on a tax system that is fairer, simpler, and more efficient than the one we have today.

That is why the President is calling for fundamental reform of the tax system that meets five key principles: (1) Simplify the tax code and lower tax rates; (2) Reform

inefficient and unfair tax breaks – including getting rid of subsidies for millionaires that they do not need and ensuring at least as good a deal for middle-class Americans as for wealthy Americans; (3) Decrease the deficit by \$1.5 trillion while protecting progressivity; (4) Increase job growth and creation in the United States; and (5) Observe the Buffett rule so that those making over \$1 million pay no less than 30 percent of their income in taxes.

To begin the national conversation about tax reform the President is offering a detailed set of specific tax loophole closers and measures to broaden the tax base that, together with the expiration of the high-income tax cuts, would be more than sufficient to hit the \$1.5 trillion target for tax reform, pay for tax cuts for the middle class, cut inefficient expenditures, and move the tax system closer to observing the Buffett Rule. They also provide continued tax relief to millions of middle class families. These proposals include eliminating the unwarranted and fiscally irresponsible Bush-era tax cuts for the highest-income families, limiting the value of tax deductions and preferences for the highest-income families, and closing a variety of tax loopholes. The Budget proposals also would expand incentives for lower- and middle-income families to earn income, save for retirement, and attend college – activities that will strengthen the middle class and help to ensure that the United States remains a land of opportunity for all, not just for the most well off.

The Administration looks forward to working with the Congress and with other stakeholders to build on the foundation laid by this Budget to enact a tax system that is fair, simple, and efficient, one that is right for the 21st century American economy.

**Table 15–1. RECEIPTS BY SOURCE—SUMMARY**  
(In billions of dollars)

	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Individual income taxes .....	1,091.5	1,164.6	1,359.3	1,476.3	1,617.4	1,762.9	1,912.2	2,051.8	2,184.2	2,319.2	2,459.4	2,604.9
Corporation income taxes .....	181.1	236.8	347.7	429.6	445.1	455.3	473.2	479.6	485.2	494.0	506.8	520.3
Social insurance and retirement receipts .....	818.8	840.6	959.1	1,038.7	1,107.2	1,181.4	1,241.9	1,311.4	1,371.0	1,432.9	1,513.3	1,590.6
(On-budget) .....	(253.0)	(268.5)	(281.6)	(296.3)	(326.3)	(348.6)	(360.8)	(375.9)	(384.4)	(399.1)	(420.5)	(440.7)
(Off-budget) .....	(565.8)	(572.1)	(677.4)	(742.4)	(780.9)	(832.8)	(881.1)	(935.5)	(986.6)	(1,033.8)	(1,092.7)	(1,149.9)
Excise taxes .....	72.4	79.4	88.1	98.6	104.2	106.4	111.9	120.2	135.7	142.1	149.8	159.1
Estate and gift taxes .....	7.4	11.4	12.7	22.9	25.1	27.1	29.2	31.6	34.1	36.7	39.4	42.1
Customs duties .....	29.5	30.8	33.5	35.6	37.9	39.5	41.4	43.7	45.9	48.1	50.2	52.4
Miscellaneous receipts .....	102.8	104.9	101.6	113.7	113.3	107.5	109.4	114.7	122.4	131.0	137.9	145.9
<b>Total, receipts .....</b>	<b>2,303.5</b>	<b>2,468.6</b>	<b>2,902.0</b>	<b>3,215.3</b>	<b>3,450.2</b>	<b>3,680.1</b>	<b>3,919.3</b>	<b>4,153.0</b>	<b>4,378.6</b>	<b>4,604.0</b>	<b>4,856.7</b>	<b>5,115.3</b>
(On-budget) .....	(1,737.7)	(1,896.5)	(2,224.5)	(2,472.9)	(2,669.3)	(2,847.3)	(3,038.1)	(3,217.5)	(3,392.0)	(3,570.2)	(3,764.0)	(3,965.4)
(Off-budget) .....	(565.8)	(572.1)	(677.4)	(742.4)	(780.9)	(832.8)	(881.1)	(935.5)	(986.6)	(1,033.8)	(1,092.7)	(1,149.9)
Total receipts as a percentage of GDP .....	15.4	15.8	17.8	18.7	19.0	19.1	19.2	19.4	19.5	19.7	19.9	20.1

## ESTIMATES OF GOVERNMENTAL RECEIPTS

Governmental receipts (on-budget and off-budget) are taxes and other collections from the public that result from the exercise of the Federal Government's sovereign or governmental powers. The difference between governmental receipts and outlays is the surplus or deficit.

The Federal Government also collects income from the public from market-oriented activities. Collections from these activities, which are subtracted from gross outlays, rather than added to taxes and other governmental receipts, are discussed in the next Chapter.

Total governmental receipts (hereafter referred to as "receipts") are estimated to be \$2,468.6 billion in 2012, an increase of \$165.1 billion or 7.2 percent from 2011. The estimated increase in 2012 is partly attributable to the growth in personal income and corporate profits as the economy begins to recover from the recession. These sources of income affect payroll taxes and individual and corporation income taxes, the three largest sources of re-

ceipts. Receipts in 2012 are estimated to be 15.8 percent of Gross Domestic Product (GDP), which is higher than in 2011, when receipts were 15.4 percent of GDP.

Receipts are estimated to rise to \$2,902.0 billion in 2013, an increase of \$433.4 billion or 17.6 percent relative to 2012. Receipts are projected to grow at an average annual rate of 7.8 percent between 2013 and 2017, rising to \$3,919.3 billion. Receipts are projected to rise to \$5,115.3 billion in 2022, growing at an average annual rate of 5.5 percent between 2017 and 2022. This growth is largely due to assumed increases in incomes resulting from both real economic growth and inflation. The Administration's proposals contribute to the growth in receipts, beginning in 2013.

As a share of GDP, receipts are projected to increase from 15.8 percent in 2012 to 17.8 percent in 2013, and to rise to 20.1 percent in 2022. However, as a share of GDP, receipts would still be lower than in 2000, when the receipts share of GDP reached 20.6 percent.

## LEGISLATION ENACTED IN 2011 THAT AFFECTS GOVERNMENTAL RECEIPTS

In 2011, President Obama signed into law Free Trade agreements with Colombia, Korea and Panama. Other legislation enacted in 2011 temporarily extended the authority to collect taxes that fund the Airport and Airway Trust Fund, temporarily extended the authority to collect taxes that fund the Highway Trust Fund, provided tax credits to businesses that hire certain veterans, and temporarily extended the two-percentage point reduction in the Social Security payroll tax rate for employees and self-employed individuals.

The major provisions of legislation enacted in 2011 that affect receipts are described below.<sup>1</sup>

### AIRPORT AND AIRWAY EXTENSION ACT OF 2011 (Public Law 112-7)

This Act, which was signed into law by President Obama on March 31, 2011, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through May 31, 2011. These taxes had been scheduled to expire after March 31, 2011, under prior law.

### COMPREHENSIVE 1099 TAXPAYER PROTECTION AND REPAYMENT OF EXCHANGE SUBSIDY OVERPAYMENTS ACT OF 2011 (Public Law 112-9)

This Act, which was signed into law by President Obama on April 14, 2011, repealed certain information reporting requirements for tax purposes and modified the limitation on repayment of advance premium assistance credits for coverage under a qualified health plan. These provisions are described below.

***Repeal expansion of information reporting requirements with respect to payments to corporations and for property provided in the Affordable Care Act (Public Law 111-148, as amended by Public Law 111-152).***—Generally, a taxpayer making payments to a recipient that aggregate to \$600 or more for services or determinable gains in the course of a trade or business in a calendar year is required to send an information return to the Internal Revenue Service (IRS) setting forth the amount, as well as the name and address of the recipient of the payment (generally on Form 1099). Prior to enactment of the Affordable Care Act, this information reporting requirement did not apply to payments to corporations or payments for property. Effective for payments made after December 31, 2011, the Affordable Care Act expanded the information reporting requirement to include payments to a corporation (except a tax-exempt corporation) and payments for property. The expansions provided in the Affordable Care Act were repealed under this Act, effective for payments made after December 31, 2011.

***Repeal expansion of information reporting requirements with respect to real estate expenses provided in the Small Business Jobs Act of 2010 (Public Law 111-240).***—Generally, prior to enactment of the Small Business Jobs Act of 2010, information reporting requirements did not apply to payments by persons engaged in a passive investment activity. However, under the Small Business Jobs Act of 2010, recipients of rental income who make payments of \$600 or more to a service provider, such as a plumber, painter, or accountant, in the course of earning rental income were required to send an information return to the IRS and to the service provider, effective for payments made after December 31, 2010. Exceptions to the reporting requirement were made for taxpayers (including members of the military or employees of the intelligence community) who rent their

<sup>1</sup> In the discussions of enacted legislation, years referred to are calendar years, unless otherwise noted.

principal residence on a temporary basis, for those who receive only small amounts of rental income per year, and for those for whom the requirements would cause hardship, as determined by the Secretary of the Treasury in accordance with regulations. The expanded information reporting requirements provided in the Small Business Jobs Act were repealed under this Act, effective for payments made after December 31, 2010.

***Modify the limitation on repayment of advance premium assistance credits for health insurance purchased through an exchange.***—The Affordable Care Act provided a “premium assistance tax credit” to certain individuals who purchase health insurance through an Affordable Insurance Exchange. The credit, which is effective for taxable years ending after December 31, 2013, is refundable and payable in advance to the insurer. Eligibility for the advanced credit is based initially on the individual’s household income and family size for the most recent taxable year; however, eligibility can be updated to reflect changes in circumstances, including changes in income, in marital or other household circumstances, and in employment status. If the premium assistance received through an advance payment exceeds the amount of the credit to which the taxpayer is entitled, the excess advance payment must be repaid (subject to a limitation for certain taxpayers) and is treated as an increase in tax. Under the Affordable Care Act, as amended by the Medicare and Medicaid Extenders Act of 2010, the limitations on the amount that must be repaid increased incrementally from \$600 for a family with income under 200 percent of the Federal Poverty Level (FPL) to \$3,500 for a family with income between 449 and 500 percent of the FPL. Under this Act, the limitations were eliminated for a family with income of at least 400 percent of the FPL. For a family with income below 400 percent of the FPL, the cap remained the same or was increased by \$500, depending on family income. As a result, the family caps are \$600 for a family with income under 200 percent of the FPL, \$1,500 for a family between 200 and 300 percent of the FPL, and \$2,500 for a family between 300 and 400 percent of the FPL. The limitation amounts for single tax-filers are equal to half of the family cap.

**DEPARTMENT OF DEFENSE AND FULL-YEAR  
CONTINUING APPROPRIATIONS ACT, 2011  
(Public Law 112-10)**

This Act, which was signed into law by President Obama on April 15, 2011, provided funding for the Federal Government through September 30, 2011. In addition, this Act affected receipts by repealing the Free Choice Voucher program enacted under the Affordable Care Act. Under this program, effective January 1, 2014, employees with household income at or below 400 percent of the FPL, whose required contribution for minimum essential coverage through their employer’s plan was between 8 and 9.8 percent of their household income, would have been eligible for employer-paid vouchers. These vouchers, which would have been equal to the amount the employer would have contributed toward the employee’s employer-

provided coverage, could have been used to purchase coverage in an Affordable Insurance Exchange.

**AIRPORT AND AIRWAY EXTENSION ACT OF  
2011, PART II  
(Public Law 112-16)**

This Act, which was signed into law by President Obama on May 31, 2011, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through June 30, 2011. These taxes had been scheduled to expire after May 31, 2011, under prior law.

**AIRPORT AND AIRWAY EXTENSION ACT OF  
2011, PART III  
(Public Law 112-21)**

This Act, which was signed into law by President Obama on June 29, 2011, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through July 22, 2011. These taxes had been scheduled to expire after June 30, 2011, under prior law.

**AIRPORT AND AIRWAY EXTENSION ACT OF  
2011, PART IV  
(Public Law 112-27)**

This Act, which was signed into law by President Obama on August 5, 2011, reinstated retroactively to July 23, 2011, and through September 16, 2011, the authority to collect taxes that fund the Airport and Airway Trust Fund. Passengers who purchased tickets prior to July 23, 2011, for travel between July 22, 2011, and August 5, 2011 (the period during which authority to collect these taxes lapsed) were not entitled to a refund of the airline ticket tax.

**SURFACE AND AIR TRANSPORTATION  
PROGRAMS EXTENSION ACT OF 2011  
(Public Law 112-30)**

This Act, which was signed into law by President Obama on September 16, 2011, extended the authority to collect taxes that fund the Airport and Airway Trust Fund through January 31, 2012. These taxes had been scheduled to expire after September 16, 2011, under prior law. This Act also extended the authority to collect taxes that fund the Highway Trust Fund, the Leaking Underground Storage Tank Trust Fund (LUST), and the Sport Fish Restoration and Boating Trust Fund through March 31, 2012. These taxes had been scheduled to expire after September 30, 2011, under prior law.

**CONTINUING APPROPRIATIONS ACT, 2012  
(Public Law 112-33)**

This Act, which was signed into law by President Obama on September 30, 2011, provided appropriations for continuing projects and activities of the Federal Government through October 4, 2011. In addition, this



Act affected receipts by extending the ban on all imports from Burma, including a ban on imports of certain gemstones originating from Burma and on jewelry containing such gemstones, effective retroactive to July 29, 2011, and through July 28, 2012. These restrictions had expired on July 28, 2011, under prior law.

**TRADE ADJUSTMENT ASSISTANCE  
EXTENSION ACT OF 2011  
(Public Law 112-40)**

This Act, which was signed into law by President Obama on October 21, 2011, temporarily and retroactively extended certain provisions of the Trade Adjustment Assistance program (TAA), which had expired in February 2011, for American workers whose livelihoods have been adversely affected by trade. This Act also included several provisions that affect receipts; the major provisions that affect receipts are described below.

***Extend Generalized System of Preferences (GSP).***—GSP was retroactively extended to January 1, 2011, through July 31, 2013. This program provides preferential, duty-free entry to the United States for up to 4,800 products from 129 designated beneficiary countries and territories. Many GSP imports are used as inputs by U.S. companies to manufacture goods in the United States.

***Extend COBRA benefits for certain TAA-eligible individuals and Pension Benefit Guaranty Corporation (PBGC) Recipients.***—This Act extended retroactively to February 13, 2011, and through December 31, 2013, COBRA continuation coverage for certain workers (and qualified family members) who have been displaced because of trade-related issues.

***Extend and modify health coverage tax credit.***—This Act extended retroactively to February 13, 2011, and through December 31, 2013, the health coverage tax credit for certain workers (and qualified family members) who have been displaced because of trade-related issues. The credit rate applicable to this time period is 72.5 percent, 7.5 percentage points less than the 80-percent rate that expired on February 12, 2011. This Act eliminated the credit entirely beginning January 1, 2014.

**UNITED STATES-KOREA FREE TRADE  
AGREEMENT IMPLEMENTATION ACT  
(Public Law 112-41)**

This Act, which was signed into law by President Obama on October 21, 2011, approved and provided for tariff reductions and other changes in law related to U.S. implementation of the United States-Korea Free Trade Agreement, as signed by the United States and the Republic of Korea on June 30, 2007, and carried out provisions of the exchange of letters concluded between the United States and Korea in February 2011. When this Agreement enters into force it will offer unprecedented access to Korea's nearly \$1 trillion economy, bolster the Nation's economic competitiveness in the Asia-Pacific region and regional security interests, and strengthen U.S.

ties with a key ally. Other provisions of this Act that affect receipts include: (1) an increase from \$100 to \$500 in the penalty levied on paid tax return preparers who fail to comply with earned income tax credit (EITC) due diligence requirements; and (2) a requirement, for tax administration purposes, for prisons located in the United States to provide to the Secretary of the Treasury the name, Social Security number, and certain other information for each person incarcerated in the prison. This Act also increased the estimated tax payments due in July through September by corporations with assets of at least \$1 billion to 100.25 percent of the amount otherwise due in 2012 and to 102.75 percent in 2016. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

**UNITED STATES-COLOMBIA TRADE  
PROMOTION AGREEMENT IMPLEMENTATION  
ACT  
(Public Law 112-42)**

This Act, which was signed into law by President Obama on October 21, 2011, approved and provided for tariff reductions and other changes in law related to U.S. implementation of the United States-Colombia Trade Promotion Agreement, as signed by the United States and Colombia on November 22, 2006, and amended through a protocol signed in Washington, D.C. on June 28, 2007. When this Agreement enters into force it will advance U.S. economic interests by providing duty-free access to the Colombian market for U.S. agricultural, industrial, and consumer goods exports. This Agreement also represents an historic development in U.S. relations with Colombia, a steadfast strategic partner of the United States and a leader in the region, and reflects the commitment of the United States to help Colombia battle the production of illegal crops by creating alternative economic opportunities. This Act also affected receipts by retroactively extending the Andean Trade Preference Act, which had expired on February 12, 2011, through July 31, 2013. In addition, estimated tax payments due in July through September of 2016 by corporations with assets of at least \$1 billion are increased to 103.25 percent of the amount otherwise due; the next required estimated tax payment is reduced accordingly.

**UNITED STATES-PANAMA TRADE PROMOTION  
AGREEMENT IMPLEMENTATION ACT  
(Public Law 112-43)**

This Act, which was signed into law by President Obama on October 21, 2011, approved and provided for tariff reductions and other changes in law related to U.S. implementation of the United States-Panama Trade Promotion Agreement, as signed by the United States and Panama on June 28, 2007. When this Agreement enters into force, it will advance U.S. national economic interests by creating significant opportunities for American workers, farmers, ranchers, and businesses by opening Panama's market and eliminating barriers to U.S. goods,

services, and investment, while promoting the Nation's core values. The Agreement builds on the success of the Caribbean Basin Initiative (CBI) program, which has contributed to economic growth and development and export diversification in Panama, one of the fastest growing economies in the Western Hemisphere. This Act also affected receipts by increasing estimated tax payments due in July through September by corporations with assets of at least \$1 billion to 100.50 percent of the amount otherwise due in 2012 and to 103.5 percent of the amount otherwise due in 2016. For corporations affected by this provision, the next required estimated tax payment is reduced accordingly.

**TO AMEND THE INTERNAL REVENUE CODE OF 1986 TO REPEAL THE IMPOSITION OF 3 PERCENT WITHHOLDING ON CERTAIN PAYMENTS MADE TO VENDORS BY GOVERNMENT ENTITIES, TO MODIFY THE CALCULATION OF MODIFIED ADJUSTED GROSS INCOME FOR PURPOSES OF DETERMINING ELIGIBILITY FOR CERTAIN HEALTHCARE-RELATED PROGRAMS, AND FOR OTHER PURPOSES  
(Public Law 112-56)**

This Act, which was signed into law by President Obama on November 21, 2011, modified various programs and benefits that help veterans transition from military to civilian life. It also contained several provisions that affect receipts, including the extension and expansion of tax credits for employers who hire certain veterans. The major provisions of this Act that affect receipts are described below.

***Repeal three-percent withholding on certain payments to vendors by government entities.***—Under prior law, certain payments made by Federal, State, and local government entities to private contractors providing property or services were subject to withholding. The rate of withholding was three percent and applied to payments made after December 31, 2011. This Act repealed the three-percent withholding provision of prior law.

***Modify the calculation of modified adjusted gross income (MAGI) for purposes of determining eligibility for certain healthcare-related programs.***—This Act modified the definition of MAGI for purposes of determining financial eligibility for Medicaid and the State Children's Health Insurance Program, and for premium assistance tax credits and cost-sharing reductions available for health insurance purchased through an Affordable Insurance Exchange, to include all Social Security and Tier 1 Railroad Retirement benefits. Under prior law only the taxable portion of these benefits was included in MAGI. The use of MAGI to determine eligibility begins after December 31, 2013, in tandem with the Medicaid expansion and the startup of premium assistance tax credits.

***Increase and expand tax credits for employers who hire certain veterans.***—Under prior law, a tax

credit equal to 40 percent of the first \$12,000 of qualified first-year wages (for a maximum credit of \$4,800) was provided for wages paid by an employer to a qualified veteran who was entitled to compensation for a service-connected disability, and either was hired not more than one year after being discharged or released from active duty, or was unemployed for at least six months during the one-year period ending on the date of employment, and began work before January 1, 2012. Under this Act, this tax credit was increased to 40 percent of the first \$24,000 of qualified first-year wages (for a maximum credit of \$9,600) for wages paid by an employer to any qualified veteran with a service-connected disability who was unemployed for at least six months. This change was effective for qualified first-year wages paid to veterans who began work after November 21, 2011, and before January 1, 2013. In addition, the credit equal to 40 percent of the first \$12,000 of qualified first-year wages (for a maximum credit of \$4,800) provided for wages paid by an employer to any qualified veteran entitled to compensation for a service-connected disability hired within one year of discharge was extended for one year.

This Act also provided the following new tax credits for qualified first-year wages paid by an employer to a qualified veteran who began work after November 21, 2011, and before January 1, 2013: (1) a credit equal to 40 percent of the first \$6,000 of qualified first-year wages (for a maximum credit of \$2,400) paid to a qualified veteran unemployed for four weeks but less than six months during the one-year period ending on the date of employment; and (2) a credit equal to 40 percent of the first \$14,000 of first-year wages (for a maximum credit of \$5,600) paid to a qualified veteran unemployed for at least six months during the one-year period ending on the date of employment.

The prior-law credit equal to 40 percent of the first \$6,000 of qualified first-year wages (for a maximum credit of \$2,400) paid to a qualified veteran who began work before January 1, 2012, and was a member of a family receiving assistance under a supplemental nutrition assistance program under the Food and Nutrition Act of 2008 for at least three months during the one-year period ending on the date of employment was extended for one year.

Under this Act, these tax credits were expanded to apply to qualified first-year wages paid to qualified veterans by qualified tax-exempt organizations. The credits for qualified tax-exempt organizations, which are taken against payroll taxes, are equal to 26 percent (rather than 40 percent) of qualified wages, up to the designated maximum amount of qualified wages to which the credit applies.

***Increase levy authority for payments to Federal contractors with delinquent tax debt.***—Through the Federal Payment Levy Program, the Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Under prior law, the Treasury was authorized to continuously levy up to 100 percent of payments to a Federal vendor for goods or services sold or leased to the Federal government if the vendor had an unpaid tax liability;

the levy was limited to 15 percent for vendor payments made for the sale or lease of real estate or other types of property. Under this Act, effective November 21, 2011, the law was clarified to provide that Treasury is allowed to levy up to 100 percent of payments made to a Federal vendor for the sale or lease of real estate or other types of property.

**TEMPORARY PAYROLL TAX CUT  
CONTINUATION ACT OF 2011  
(Public Law 112-78)**

This Act, which was signed into law by President Obama on December 23, 2011, affected receipts by extending the temporary two-percentage point reduction in the employee Social Security payroll tax rate, as enacted under the Tax Relief, Unemployment Insurance

Reauthorization, and Job Creation Act of 2010, to apply to the first \$18,350 of taxable wages received after December 31, 2011, and before March 1, 2012. A similar reduction applies to the employee portion of Tier 1 Railroad Retirement payroll taxes. For self-employed individuals, the Social Security payroll tax rate is reduced from 12.4 percent to 10.4 percent of the first \$18,350 of net taxable self-employment income received during the first two months of taxable years beginning in 2012. This Act provided for a recapture of any benefit a taxpayer may receive from the reduction in the payroll tax rate for remuneration received during the first two months of 2012 in excess of \$18,350. In addition, the Social Security Trust Fund is held harmless and will receive transfers from the General Fund of the Treasury equal to any reduction in payroll taxes attributable to these reductions in the payroll tax rate.

**ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE**

An important step in addressing the Nation's fiscal problems is to be upfront about them and to establish a baseline that provides a realistic measure of the deficit outlook before new policies are enacted. This Budget does so by adjusting the BEA baseline to reflect the true cost of extending major tax policies that are scheduled to expire but that are likely to be extended. The BEA baseline, which is commonly used in budgeting and is defined in statute, reflects, with some exceptions, the projected receipts level under current law.

However, current law includes a number of scheduled tax changes that are unlikely to occur and that prevent it from serving as a realistic benchmark for judging the effect of new legislation. These tax changes include expiration of most of the income tax reductions enacted in 2001 and 2003. They also include reversion of the estate, gift, and generation-skipping transfer (GST) taxes to pre-2001 parameters, and expiration of relief from the Alternative Minimum Tax (AMT).

This Budget uses an adjusted baseline that is intended to be more realistic. This baseline does not reflect the President's policy proposals, but is rather a realistic and fair benchmark from which to measure the effects of those policies. This baseline permanently continues the 2001 and 2003 tax cuts (as modified by subsequent legislation) for all taxpayers. The Administration's adjusted baseline also permanently continues estate, gift, and GST taxes at 2012 parameters and reflects permanent extension of relief from the AMT.

**Continue the 2001 and 2003 tax cuts.**—Most of the tax reductions enacted in 2001 and 2003 were recently extended for two years and are now scheduled to expire on December 31, 2012. This includes reductions in marginal individual income tax rates, special provisions for married couples, expansions in the child tax credit, increases in small business expensing, and preferential rates for capital gains and dividends. The Administration's adjusted baseline projection per-

manently extends all of these expiring provisions (as amended by subsequent legislation).

**Extend estate, gift, and GST taxes at 2012 parameters.**—The Administration's adjusted baseline projection reflects permanent extension of the estate, gift, and GST tax parameters and provisions in effect for calendar year 2012, effective for decedents dying after December 31, 2012. Under those parameters, the estates and generation-skipping transfers of a decedent dying after December 31, 2012, are taxed at a maximum tax rate of 35 percent and are provided a life-time exclusion of \$5 million (indexed for inflation from 2010 and after 2011). Gifts made after December 31, 2012, are taxed at a maximum tax rate of 35 percent and provided a life-time exclusion of \$5 million. In addition, the portability of unused estate and gift exclusion amounts between spouses is permanently extended to apply to decedents dying after December 31, 2012.

**Extend and index for inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312).**—The Administration's adjusted baseline projection reflects permanent extension and annual indexation of: (1) the AMT exemption amounts in effect for taxable year 2011 (\$48,450 for single taxpayers, \$74,450 for married taxpayers filing a joint return and surviving spouses, and \$37,225 for married taxpayers filing a separate return and for estates and trusts); (2) the income thresholds for the 28-percent AMT rate (\$87,500 for married taxpayers filing a separate return and \$175,000 for all other taxpayers); and (3) the income thresholds for the phaseout of the exemption amounts (\$150,000 for married taxpayers filing a joint return and surviving spouses, \$112,500 for single taxpayers, and \$75,000 for married taxpayers filing a separate return). The adjusted baseline projection also extends AMT relief for nonrefundable personal tax credits.



**Table 15-2. ADJUSTMENTS TO THE BUDGET ENFORCEMENT ACT (BEA) BASELINE ESTIMATES OF GOVERNMENTAL RECEIPTS**  
(In billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
<b>BEA baseline receipts</b> .....	<b>2,611.1</b>	<b>3,125.9</b>	<b>3,447.2</b>	<b>3,608.1</b>	<b>3,817.8</b>	<b>4,121.6</b>	<b>4,383.5</b>	<b>4,643.4</b>	<b>4,881.9</b>	<b>5,163.3</b>	<b>5,448.4</b>	<b>18,120.6</b>	<b>42,641.0</b>
<b>Adjustments to BEA baseline:</b>													
Continue the 2001 and 2003 tax cuts:													
Dividends tax rate structure .....		-25.4	-18.3	-24.6	-30.3	-33.3	-34.2	-35.0	-35.8	-36.7	-37.8	-131.9	-311.5
Capital gains tax rate structure .....		-7.7	0.7	-2.8	-7.8	-10.8	-11.6	-12.2	-12.7	-13.2	-13.7	-28.4	-91.9
Expensing for small businesses .....		-5.0	-7.3	-6.1	-5.2	-4.5	-4.2	-4.1	-4.1	-4.2	-4.3	-28.1	-48.9
Marginal individual income tax rate reductions .....		-69.3	-100.8	-105.9	-111.4	-117.4	-122.9	-128.0	-133.1	-138.4	-143.7	-504.8	-1,171.0
Child tax credit <sup>1</sup> .....		-4.9	-19.8	-20.3	-20.8	-21.2	-21.5	-21.7	-21.9	-22.1	-22.2	-87.0	-196.4
Provisions for married taxpayers <sup>1</sup> .....		-5.0	-7.3	-7.1	-6.9	-6.8	-6.7	-6.6	-6.6	-6.6	-6.7	-33.1	-66.2
Education incentives .....		-0.9	-1.9	-2.0	-2.1	-2.2	-2.3	-2.4	-2.5	-2.6	-2.6	-9.1	-21.5
Other incentives for families and children .....		-0.4	-1.2	-1.4	-1.4	-1.4	-1.6	-1.6	-1.6	-1.5	-1.6	-5.8	-13.7
Total, continue the 2001 and 2003 tax cuts .....		-118.5	-155.9	-170.1	-185.8	-197.8	-205.1	-211.7	-218.3	-225.3	-232.7	-828.0	-1,921.1
Extend estate, gift, and generation-skipping transfer taxes at 2012 parameters .....	-1.5	-4.9	-31.9	-35.8	-39.8	-43.6	-47.7	-51.4	-55.1	-58.8	-62.1	-155.9	-431.1
Extend and index to inflation the 2011 parameters of the AMT as enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 .....	-19.1	-120.2	-114.7	-129.7	-148.3	-169.1	-191.5	-215.9	-241.7	-269.0	-298.3	-681.9	-1,898.3
<b>Total, adjustments to BEA baseline ...</b>	<b>-20.6</b>	<b>-243.6</b>	<b>-302.5</b>	<b>-335.6</b>	<b>-373.8</b>	<b>-410.4</b>	<b>-444.3</b>	<b>-479.0</b>	<b>-515.1</b>	<b>-553.0</b>	<b>-593.1</b>	<b>-1,665.9</b>	<b>-4,250.5</b>
<b>Adjusted baseline receipts</b> .....	<b>2,590.5</b>	<b>2,882.3</b>	<b>3,144.7</b>	<b>3,272.5</b>	<b>3,444.0</b>	<b>3,711.1</b>	<b>3,939.1</b>	<b>4,164.3</b>	<b>4,366.8</b>	<b>4,610.3</b>	<b>4,855.3</b>	<b>16,454.7</b>	<b>38,390.5</b>

<sup>1</sup> This provision affects both receipts and outlays. Only the receipt effect is shown here. The outlay effects are listed below:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
Child tax credit .....		1.2	23.2	23.3	23.5	23.6	23.6	23.7	23.7	23.8	23.8	94.8	213.3
Provisions for married taxpayers .....		0.2	4.2	4.2	4.2	4.2	4.2	4.3	4.3	4.3	4.4	17.1	38.6
Total, outlay effects of adjustments to BEA baseline .....		1.4	27.3	27.6	27.7	27.9	27.9	28.0	28.0	28.1	28.1	111.8	251.9

## PROPOSALS

The President is calling for fundamental tax reform and has offered five key principles – that reform should cut rates and simplify the system, reform tax loopholes and expenditures, cut the deficit, increase job creation and economic growth in the United States, and observe the Buffett rule. As a down payment on reform, the President is offering a detailed set of proposals that would provide permanent tax cuts to working families, return to the pre-2001 ordinary income tax rates for families making more than a quarter of a million dollars a year, close loopholes, and eliminate subsidies to special interests. Extensions of certain expiring provisions and initiatives to promote program integrity are also proposed. The Administration's proposals that affect receipts are described below.

### Temporary Tax Relief to Create Jobs and Jumpstart Growth

**Extend temporary reduction in the Social Security payroll tax rate for employees and self-employed individuals.**—The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reduced

the employee Social Security payroll tax rate from 6.2 percent to 4.2 percent of the first \$106,800 of taxable wages received after December 31, 2010, and before January 1, 2012. A similar reduction applied to the employee portion of Tier 1 Railroad Retirement payroll taxes. For self-employed individuals, the Social Security payroll tax rate was reduced from 12.4 percent to 10.4 percent of the first \$106,800 of net taxable self-employment income for taxable years beginning in 2011. The Social Security Trust Fund was held harmless and received transfers from the General Fund of the Treasury equal to the reduction in payroll taxes attributable to these reductions in the payroll tax rate. The Temporary Payroll Tax Cut Continuation Act of 2011 extended these reductions in the Social Security and Tier 1 Railroad Retirement payroll tax rates to apply to the first \$18,350 of taxable wages received after December 31, 2011, and before March 1, 2012, and to net taxable self-employment income received during the first two months of taxable years beginning in 2012.

The Administration proposes to extend the temporary two-percentage point reduction in the employee Social



Security payroll tax rate to apply to the first \$110,100 of taxable wages received after December 31, 2011, and before January 1, 2013. A similar reduction would apply to the employee portion of Tier 1 Railroad Retirement payroll taxes. For self-employed individuals, the Social Security payroll tax rate would be reduced from 12.4 percent to 10.4 percent of the first \$110,100 of net taxable self-employment income received in taxable years beginning in 2012. The Social Security Trust Fund would be held harmless and receive transfers from the General Fund of the Treasury equal to any reduction in payroll taxes attributable to these reductions in payroll tax rates.

**Extend 100-percent first-year depreciation deduction for certain property.**—Under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, additional first-year depreciation was increased to 100 percent of the adjusted basis of qualified property acquired and placed in service after September 8, 2010, and before January 1, 2012 (with an extension of the placed-in-service deadline to January 1, 2013, for certain longer-lived and transportation property). Corporations are allowed to claim additional AMT credits in lieu of claiming the additional depreciation. The Administration proposes to extend 100-percent first-year depreciation for one year, effective for qualified property acquired and placed in service before January 1, 2013 (January 1, 2014 for certain longer-lived and transportation property). The Administration also proposes to continue the corporate election to claim additional AMT credits in lieu of the additional depreciation for property placed in service in 2012 regardless of prior-year elections of this provision.

**Provide a temporary 10-percent tax credit for new jobs and wage increases.**—Under current law, there is no generally available income tax credit for job creation or increasing employees' wages. The Administration proposes to provide an income tax credit for employers for increases in wage expense, whether driven by job creation, increased wages or both. The credit would be equal to 10 percent of the increase in the employer's 2012 eligible wages over the prior year (2011). Eligible wages are the employer's Old Age, Survivors, and Disability Insurance (OASDI) wages. The maximum amount of the increase in eligible wages would be \$5 million per employer, for a maximum credit of \$500,000. For employers with no OASDI wages in 2011, eligible wages would be 80 percent of their OASDI wage base for 2012. The credit also would be available to tax exempt organizations and public universities. The proposal would be effective for the one-year period beginning on January 1, 2012.

**Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project.**—The American Recovery and Reinvestment Act (ARRA), Public Law 111-5, provided a 30-percent credit for investment in eligible property used in a qualified advanced energy manufacturing project. A qualified advanced energy manufacturing project re-equips, expands, or establishes a manufacturing facility for the production of: (1) property designed to be used to produce energy from the sun, wind, geothermal depos-

its, or other renewable resources; (2) fuel cells, microturbines, or an energy storage system for use with electric or hybrid-electric motor vehicles; (3) electric grids to support the transmission of intermittent sources of renewable energy, including the storage of such energy; (4) property designed to capture and sequester carbon dioxide; (5) property designed to refine or blend renewable fuels (excluding fossil fuels) or to produce energy conservation technologies; (6) new qualified plug-in electric drive motor vehicles or components that are designed specifically for use with such vehicles; or (7) other advanced energy property designed to reduce greenhouse gas emissions as may be determined by the Department of the Treasury. Eligible property must be depreciable (or amortizable) property used in a qualified advanced energy project and does not include property designed to manufacture equipment for use in the refining or blending of any transportation fuel other than renewable fuels. The credit is available only for projects certified by the Department of the Treasury (in consultation with the Department of Energy); the total amount of credits certified may not exceed \$2.3 billion. The Administration proposes to provide an additional \$5 billion in credits, thereby increasing the amount of credits certified by the Department of the Treasury to \$7.3 billion.

**Provide tax credit for energy-efficient commercial building property expenditures in place of existing tax deduction.**—The proposal would replace the existing deduction for energy efficient commercial building property expenditures with a tax credit and also allow taxpayers to take an alternative credit for placing in service specified property that meets certain energy efficiency standards. Special rules would be provided that would allow the credit to benefit a real estate investment trust (REIT) or its shareholders. The tax credit would be available for property placed in service during calendar year 2013.

**Reform and extend Build America Bonds.**—ARRA created the Build America Bond program as an optional new lower cost borrowing incentive for State and local governments on taxable bonds issued in 2009 and 2010 to finance new investments in governmental capital projects. Under the original program applicable to Build America Bonds issued in 2009 and 2010, the Department of the Treasury makes direct subsidy payments (called "refundable tax credits") to State and local governmental issuers in a subsidy amount equal to 35 percent of the coupon interest on the bonds. The Administration proposes to extend the Build America Bond program for two years at a subsidy rate of 30 percent, and to extend it permanently thereafter at a subsidy rate of 28 percent, which is approximately revenue neutral in comparison to the Federal tax losses from traditional tax-exempt bonds. The Administration also proposes to expand the Build America Bond program beyond new investments in governmental capital projects to include certain additional program uses for which State and local governments may use tax-exempt bonds under existing law. The proposed modifications to the Build America Bond program would

be effective for bonds issued beginning upon the date of enactment.

### Tax Cuts for Families and Individuals

**Extend American opportunity tax credit (AOTC).**—ARRA created the AOTC, which replaced the Hope Scholarship Credit for taxable years 2009 and 2010. The credit was extended for two years, to apply to taxable years 2011 and 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The AOTC provides taxpayers a credit of up to \$2,500 per eligible student per year for qualified tuition and related expenses (expanded to include course materials) paid for each of the first four years of the student's post-secondary education in a degree or certification program. The student must be enrolled at least half-time to receive the credit. The credit is equal to 100 percent of the first \$2,000 in qualified tuition and related expenses, and 25 percent of the next \$2,000 of qualified tuition and related expenses. The credit is phased out ratably for single taxpayers with modified adjusted gross income (AGI) between \$80,000 and \$90,000 (\$160,000 and \$180,000 for married taxpayers filing a joint return). Unlike the Hope Scholarship Credit, the new tax credit is partially (40 percent) refundable. The AOTC also has a higher maximum credit amount, is available for the first four years of post-secondary education, and has higher phaseout limits than the Hope Credit. The Administration proposes to permanently extend the AOTC and index the expense amounts and phaseout limits, effective for taxable years beginning after December 31, 2012.

**Provide for automatic enrollment in individual retirement accounts (IRAs), including a small employer tax credit, and doubling of the tax credit for small employer plan start-up costs.**—The Administration proposes to encourage saving and increase participation in retirement savings arrangements by requiring employers that do not currently offer a retirement plan to offer their employees automatic enrollment in an IRA, effective after December 31, 2013. Employers with ten or fewer employees and employers in existence for less than two years would be exempt. An employee not providing a written participation election would be enrolled at a default rate of three percent of the employee's compensation in a Roth IRA. Employees would always have the option of opting out, opting for a lower or higher contribution within the IRA limits, or opting for a traditional IRA. Contributions by employees to automatic payroll-deposit IRAs would qualify for the saver's credit (to the extent the contributor and the contributions otherwise qualified).

Small employers (those that have no more than 100 employees) that offer an automatic IRA arrangement (including those that are not required to do so) would be entitled to a temporary business tax credit for the employer's expenses associated with the arrangement up to \$500 for the first year and \$250 for the second year. Furthermore, these employers would be entitled to an additional credit

of \$25 per participating employee up to a total of \$250 per year for six years.

Under current law, small employers (those that have no more than 100 employees) that adopt a new qualified retirement or SIMPLE plan are entitled to a temporary business tax credit equal to 50 percent of the employer's expenses of establishing or administering the plan, including expenses of retirement-related employee education with respect to the plan. The credit is limited to a maximum of \$500 per year for three years. In conjunction with the automatic IRA proposal, to encourage small employers not currently sponsoring a qualified retirement or SIMPLE plan to do so, the Administration proposes to double this tax credit to a maximum of \$1,000 per year for three years (effective for taxable years beginning after December 31, 2013) and to extend it to four years (rather than three) for any small employer that adopts a new qualified retirement or SIMPLE plan during the three years beginning when it first offers or first is required to offer an automatic IRA arrangement.

**Expand EITC for larger families.**—The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, that is reduced by the product of a specified phaseout rate and the amount of earned income or AGI, if greater, in excess of a specified income threshold. Three separate credit schedules apply, depending on whether the eligible taxpayer has no, one, or more than one qualifying child. Effective for taxable years 2009 through 2012, a fourth credit schedule was added for families with three or more qualifying children. Effective for taxable years beginning after December 31, 2012, the Administration proposes to make permanent the credit schedule (with a 45-percent credit percentage) for families with three or more qualifying children.

**Expand child and dependent care tax credit.**—Taxpayers with child or dependent care expenses who are working or looking for work are eligible for a nonrefundable tax credit that partially offsets these expenses. Married couples are eligible only if they file a joint return and either both spouses are working or looking for work, or if one spouse is working or looking for work and the other is attending school full-time. To qualify for this benefit, the child and dependent care expenses must be for either a child under age 13 when the care was provided or a disabled dependent of any age with the same place of abode as the taxpayer. Any allowable credit is reduced by the aggregate amount excluded from income under a dependent care assistance program. Eligible taxpayers may claim the credit for up to 35 percent of up to \$3,000 in eligible expenses for one child or dependent and up to \$6,000 in eligible expenses for more than one child or dependent. The percentage of expenses for which a credit may be taken decreases by one percentage point for every \$2,000 of AGI over \$15,000 until the percentage of expenses reaches 20 percent (at incomes above \$43,000). There are no further income limits. The income phase-down and the credit are not indexed for inflation. The proposal would increase the beginning of the phasedown to \$75,000 (and thus, the end of the phasedown range to

\$103,000). The proposal would be effective for tax years beginning after December 31, 2012.

**Extend exclusion from income for cancellation of certain home mortgage debt.**—The Administration proposes to extend the provision that excludes from gross income amounts that are realized from discharges of qualified principal residence indebtedness. The exclusion would apply to amounts that are discharged before January 1, 2015, or that are discharged pursuant to an agreement entered into before that date.

**Provide exclusion from income for student loan forgiveness for students after 25 years of income-based or income-contingent repayment.**—The Federal Family Education Loan and Federal Direct Loan programs provide borrowers with two options for making payments that are related to their income levels after college: the income-contingent and the income-based repayment options. Under both of these options borrowers complete their repayment obligation when they have repaid the loan in full, with interest, or have made those payments that are required under the plan for 25 years. For those who reach the 25-year point, any remaining loan balance is forgiven. Under current law, any debt forgiven is considered gross income to the borrower and subject to individual income tax. The potential tax consequence may be making some student loan borrowers reluctant to avail themselves of either of these two loan repayment options. To address that problem, the Administration proposes to exclude from gross income amounts forgiven at the end of the repayment period for Federal student loans using these two methods of repayment. The provision would be effective for discharges of loans after December 31, 2012.

**Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the Indian Health Service (IHS) Health Professions Programs.**—Under current law, debt forgiven or otherwise discharged is generally considered gross income to the borrower and subject to income tax. There are certain exceptions, including for individuals who receive payments under the National Health Service Corps Loan Repayment Program or certain similar State loan repayment programs. Furthermore, although scholarship amounts for tuition and related expenses are generally excluded from income under current law, scholarship amounts that represent payment for teaching, research, and other services are not. There are exceptions for participants in the National Health Service Corps Scholarship Program and the Armed Forces Health Professions Scholarship and Financial Assistance Program. The IHS Health Professions Programs are very similar to those programs whose participants are permitted to exclude discharged loan amounts and certain scholarship amounts from income. The Administration proposes to extend this exception to the IHS Health Professions Loan Repayment Program and the IHS Health Professions Scholarship Program. These provisions would be effective for discharges of loans af-

ter December 31, 2012, and for qualifying scholarship amounts received after December 31, 2012.

### **Incentives for Expanding Manufacturing and Insourcing Jobs in America**

**Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas.**—To provide a tax incentive for U.S. companies to move jobs into the United States from offshore, the Administration proposes to create a credit against income tax equal to 20 percent of the expenses paid or incurred in connection with insourcing a U.S. trade or business. In addition, to reduce incentives for U.S. companies to move jobs offshore, the proposal would disallow deductions for expenses paid or incurred in connection with outsourcing a U.S. trade or business. For this purpose, insourcing (outsourcing) a U.S. trade or business means reducing or eliminating a trade or business or line of business currently conducted outside (inside) the United States and starting up, expanding, or otherwise moving the same trade or business within (outside) the United States. Also for this purpose, expenses paid or incurred in connection with insourcing or outsourcing a U.S. trade or business are limited solely to expenses associated with the relocation of the trade or business and do not include capital expenditures.

**Provide new Manufacturing Communities tax credit.**—The Administration proposes to provide new tax credit authority to support qualified investments in communities affected by military base closures or mass layoffs, such as those arising from plant closures. This would provide about \$2 billion in credits for qualified investments approved in each of the three years, 2012 through 2014.

**Target the domestic production activities deduction to domestic manufacturing activities and double the deduction for advanced manufacturing activities.**—Current law allows a deduction to taxpayers that generate income from domestic production activities. The deduction is generally equal to nine percent of qualified income, which includes receipts earned from a wide list of domestic production activities, not just those traditionally considered manufacturing. The Administration proposes to limit the extent to which the deduction is allowed with respect to nonmanufacturing activities by excluding income derived from sources such as the production of oil and gas and the production of coal and other hard mineral fossil fuels from the qualified income on which the deduction is computed. Additional revenue obtained from this retargeting would be used to increase the deduction rate for domestic manufacturing activity and to provide for an even greater deduction rate for activities involving the manufacture of certain advanced technology property. The proposal would be effective for taxable years beginning after December 31, 2012.

**Enhance and make permanent the research and experimentation (R&E) tax credit.**—A tax credit of 20 percent is provided for qualified research and experimentation expenditures above a base amount. An alternative



simplified credit of 14 percent is also provided. These tax credits expired with respect to expenditures paid or incurred after December 31, 2011. The Administration proposes to permanently extend these tax credits and to raise the rate of the alternative simplified credit to 17 percent.

***Provide a tax credit for the production of advanced technology vehicles.***—Current law provides a tax credit for plug-in electric drive motor vehicles. The Administration proposes to replace this credit with a credit for advanced technology vehicles. The credit would be available for a vehicle that meets the following criteria: (1) the vehicle operates primarily on an alternative to petroleum; (2) as of January 1, 2012, there are few vehicles in operation in the United States using the same technology as such vehicle; and (3) the technology used by the vehicle substantially exceeds the footprint-based target miles per gallon gasoline equivalent (MPGe). The Secretary of the Treasury, in consultation with the Secretary of Energy, will determine what constitutes the same technology for this purpose. The credit would be limited to vehicles that weigh no more than 14,000 pounds and are treated as motor vehicles for purposes of title II of the Clean Air Act. In general, the credit would be scalable based on the vehicle's MPGe, but would be capped at \$10,000 (\$7,500 for vehicles with a manufacturer's suggested retail price (MSRP) above \$45,000). The credit for a battery-powered vehicle would be determined under current law rules for the credit for plug-in electric drive motor vehicles if that computation results in a greater credit. The credit would be allowed for vehicles placed in service after the date of enactment and before January 1, 2020. The credit would be limited to 75 percent of the otherwise allowable amount for vehicles placed in service in 2017, to 50 percent of such amount for vehicles placed in service in 2018, and to 25 percent of such amount for vehicles placed in service in 2019. The credit would be allowed to the person that sold the vehicle to the person placing the vehicle in service (or, at the election of the seller, to the person financing the sale) but only if the amount of the credit is disclosed to the purchaser.

***Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles.***—Current law provides no tax incentive for vehicles (other than fuel-cell vehicles) weighing more than 14,000 pounds. The Administration proposes to provide a tax credit for dedicated alternative-fuel commercial vehicles weighing more than 14,000 pounds. The credit would be equal to 50 percent of the incremental cost of such vehicles compared to the cost of a comparable diesel fuel or gasoline vehicle. The credit would be limited to \$25,000 for vehicles weighing up to 26,000 pounds and to \$40,000 for vehicles weighing more than 26,000 pounds. In the case of fuel-cell vehicles, the proposed credit would be reduced by the amount of the credit allowed with respect to the vehicle under current law. The credit would be allowed for vehicles placed in service after December 31, 2012, and before January 1, 2019. For vehicles placed in service in calendar year 2018, the credit would be limited to 50 percent of the otherwise allowable amount. The credit would

be allowed to the person placing the vehicle in service or, in the case of a vehicle placed in service by a tax-exempt or governmental entity, to the person that sold the vehicle to such entity (or, at the election of the seller, to the person financing the sale), but only if the amount of the credit is disclosed to the purchaser.

***Extend and modify certain energy incentives.***—Current law provides production tax credits for wind facilities placed in service in 2012 and certain other renewable energy facilities placed in service before 2014. Current law also provides an investment tax credit for energy property. Energy property is: (1) property that is part of a facility that, but for the election to claim an investment tax credit, would qualify for a production tax credit; and (2) certain other listed property (including solar energy property). In addition, current law provides grants for energy property on which construction began in 2009, 2010, or 2011. The grant is available for: (1) wind facility property if the property is placed in service in 2012; (2) all other property that is part of a facility otherwise eligible for the renewable electricity production tax credit if the property is placed in service before 2014; and (3) any other property that is eligible for the investment tax credit for energy property if the property is placed in service before 2017. The Administration proposes to extend the production tax credit for wind facilities and the investment tax credit for wind facility property through 2013. In addition, the Administration proposes to extend the grant program to all otherwise qualifying property placed in service in 2012 (including property on which construction begins in 2012). For property placed in service after 2012, the Administration proposes to replace the grant program with a refundable income tax credit administered by the IRS. The refundable tax credit would be available for property on which construction begins in the five years, 2009 through 2013. The refundable credit would be allowed with respect to property placed in service in 2013 (in the case of property, including wind facility property, that is part of a facility otherwise eligible for the renewable electricity production tax credit) and for property placed in service in the four years, 2013 through 2016 (in the case of any other property otherwise eligible for the investment tax credit for energy property).

### **Tax Relief for Small Business**

***Eliminate capital gains taxation on investments in small business stock.***—Current law provides a 100-percent exclusion from tax for capital gains realized on the sale of qualified small business stock issued after September 27, 2010, and before January 1, 2012, and held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of \$10 million or ten times the taxpayer's basis in the stock. For stock acquired prior to September 28, 2010, a portion of the excluded gain is subject to the AMT. A taxpayer may elect to rollover capital gain from the sale of qualified small business stock held for more than six months if other qualified small business stock is purchased during the 60-day period beginning on the date of sale. The



exclusion is limited to individual investments and not the investments of a corporation. A 50-percent exclusion applies under the law prior to ARRA. Effective for stock issued after February 17, 2009, and before January 1, 2011, ARRA increased the exclusion to 75 percent. Under the Small Business Jobs Act, the exclusion was increased to 100 percent, effective for stock issued after September 27, 2010, and before January 1, 2011. The 100 percent exclusion was extended for one year, to apply to qualified small business stock issued after December 31, 2010, and before January 1, 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration proposes to permanently extend the 100-percent exclusion, extend the rollover period from 60 days to six months for stock held at least three years, and eliminate the AMT preference for the excluded gain. Reporting requirements would be tightened to ensure compliance. These proposals would be effective for qualified small business stock issued after December 31, 2011.

**Double the amount of expensed start-up expenditures.**—A taxpayer generally is allowed to elect to deduct up to \$5,000 of start-up expenditures (amounts otherwise deductible as expenses had they not been paid or incurred before business begins) in the taxable year in which the active trade or business begins. The \$5,000 amount is reduced (but not below zero), by the amount by which the cumulative cost of start-up expenditures exceeds \$50,000. Effective only for taxable years beginning in 2010, the Small Business Jobs Act of 2010 increased the amount of start-up expenditures a taxpayer may elect to deduct to \$10,000; that amount is reduced (but not below zero) by the amount by which the cumulative cost of start-up expenditures exceeds \$60,000. The Administration proposes to double permanently, from \$5,000 to \$10,000, the amount of start-up expenditures that a taxpayer may elect to deduct, effective for tax years ending on or after the date of enactment. That amount would be reduced (but not below zero) by the amount by which the cumulative cost of start-up expenditures exceeds \$60,000.

**Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance.**—The Affordable Care Act provided a tax credit to help small employers provide health insurance for their employees and their families. To claim the credit, a qualified employer must make non-elective uniform contributions of at least 50 percent of the premium. For taxable years beginning in 2010 through 2013, the credit is available for health insurance coverage purchased from an insurance company licensed under State law. For taxable years beginning after 2013, the credit is available only for health insurance purchased through an Affordable Insurance Exchange and only for a maximum coverage period of two consecutive taxable years beginning with the first year in which the employer or any predecessor first offers one or more qualified plans to its employees through an exchange. To be a qualified small employer, an employer must have fewer than 25 full-time equivalent employees during the taxable year with annual full-time equivalent wages that average less than \$50,000. The maximum credit is a

specified percentage of premiums the employer pays during the taxable year, subject to certain limitations. For taxable years beginning in 2010 through 2013, the maximum percentage is 35 percent for businesses (25 percent for tax-exempt employers). For taxable years beginning after 2013, the maximum percentage is 50 percent for businesses (35 percent for tax-exempt employers). The credit is reduced on a sliding scale between 10 and 25 full-time equivalent employees as well as between an average annual wage of \$25,000 and \$50,000. Because the reductions are additive, an employer with fewer than 25 full-time equivalent employees paying an average wage less than \$50,000 might not be eligible for any tax credit. In addition, the qualified amount of the employer contribution is reduced if the premium for the coverage purchased exceeds the State average premium.

The Administration proposes to expand the credit to employers with up to 50 full-time equivalent employees and to begin the phaseout at 20 full-time equivalent employees (the credit would be reduced on a sliding scale between 20 and 50 full-time equivalent employees). In addition, there would be a change to the coordination of the phaseouts of the credit that apply as the number of employees and average wages increase (using a formula that is multiplicative rather than additive) so as to provide a more gradual combined phaseout and to ensure that employers with fewer than 50 employees and an average wage less than \$50,000 may be eligible for the credit, even if they are nearing the end of both phaseouts. The Administration also proposes to reduce taxpayer complexity by eliminating the requirement that an employer make a uniform contribution on behalf of each employee (although applicable nondiscrimination laws will still apply), and eliminating the reduction in the qualifying contribution for premiums that exceed the State average premium.

### Incentives to Promote Regional Growth

**Extend and modify the New Markets tax credit (NMTC).**—The NMTC is a 39 percent credit for qualified equity investments made in qualified community development entities that are held for a period of seven years. The NMTC provisions expired at the end of 2011. The Administration proposes to extend the NMTC through 2013, with an allocation amount of \$5 billion for each year. The Administration also proposes that \$250 million of this \$5 billion be allocated to support financing healthy food options in distressed communities as part of the Healthy Food Financing Initiative. The proposal would also permit the NMTC to permanently offset AMT liability.

**Designate Growth Zones.**—The Administration proposes to designate 20 Growth Zones (14 in urban areas and 6 in rural areas). The zone designation and corresponding incentives would be in effect from January 1, 2014, through December 31, 2018. The zones would be chosen through a competitive application process based on the strength of the applicant's "competitiveness plan," economic indicators, and other criteria. Two tax incen-

tives would be applicable to growth zones. First, an employment credit would be provided to businesses that employ zone residents that would apply to the first \$15,000 of qualifying wages annually. The credit rate would be 20 percent for zone residents who are employed within the zone and 10 percent for zone residents employed outside of the zone. Second, qualifying property placed in service within the zone would be eligible for additional first-year depreciation of 100 percent of the adjusted basis of the property. Qualifying property would generally consist of depreciable property with a recovery period of 20 years or less.

***Restructure assistance to New York City, provide tax incentives for transportation infrastructure.***—

Some of the tax benefits that were provided to New York following the attacks of September 11, 2001, likely will not be usable in the form in which they were originally provided. State and local officials in New York have concluded that improvements to transportation infrastructure and connectivity in the Liberty Zone would have a greater impact on recovery and continued development than would some of the existing tax incentive provisions. The Administration proposes to provide tax credits to New York State and New York City for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. New York State and New York City each would be eligible for a tax credit for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. The tax credit would be allowed in each year from 2013 to 2022, inclusive, subject to an annual limit of \$200 million (for a total of \$2 billion in tax credits), and would be divided evenly between the State and the City. Any credits not used in a given year would be added to the \$200 million annual limit for the following year, including years after 2022. Similarly, any expenditures that exceeded the limit would be carried forward and subtracted from the annual limit in the following years. The credit would be allowed against any payments (other than payments of excise taxes and social security and Medicare payroll taxes) made by the State and City under any provision of the Internal Revenue Code, including income tax withholding.

***Modify tax-exempt bonds for Indian tribal governments.***—In general, current law limits Indian tribal governments in their use of tax-exempt bonds to the financing of certain “essential governmental function” activities that are customarily performed by State and local governments. ARRA provided a limited \$2 billion authorization of “Tribal Economic Development Bonds,” which gives Indian tribal governments more flexibility to use tax-exempt bonds under standards that are more comparable to those applied to State and local governments in their use of tax-exempt bonds (subject to certain express targeting restrictions that require financed projects to be located on Indian reservations and that prohibit the financing of certain gaming facilities). In December 2011, the Department of the Treasury submitted a required report to the Congress regarding its study of the Tribal Economic Development Bond provision and its recommendations for

Indian tribal governmental tax-exempt bond financing. The Administration proposes to modify the standards for Indian tribal governmental tax-exempt bond financing to reflect the recommendations in this Department of the Treasury report. In particular, the Administration’s proposal generally would adopt the State or local government standard for tax-exempt governmental bonds without a bond volume cap on such governmental bonds for purposes of Indian tribal governmental eligibility to issue tax-exempt governmental bonds. The proposal would repeal the existing essential governmental function standard for Indian tribal governmental tax-exempt bond financing. In addition, the proposal would allow Indian tribal governments to issue tax-exempt private activity bonds for the same types of projects and activities as are allowed for State and local governments, under a modified national bond volume cap to be administered by the Department of the Treasury. Further, the proposal generally would continue an existing targeting restriction that would require projects financed with Indian tribal governmental bonds to be located on Indian reservations, with some additional flexibility to finance projects that have a requisite nexus to Indian reservations and that serve resident populations of Indian reservations. Finally, the proposal would continue an existing targeting restriction that prohibits financing of certain gaming projects. This proposal would be effective as of the date of enactment.

***Allow current refundings of State and local governmental bonds.***—

Current law provides Federal tax subsidies for lower borrowing costs on debt obligations issued by State and local governments for eligible purposes under various programs. These programs include traditional tax-exempt bonds and other temporary or targeted qualified tax credit bond programs (e.g., Qualified School Construction Bonds) and direct borrowing subsidy payment programs (e.g., Build America Bonds). State and local bond programs have varied in the extent to which they expressly allow or treat refinancings (as distinguished from original financings to fund eligible program purposes). In a “current refunding” of State and local bonds, the refunded bonds are retired promptly within 90 days after issuance of the refinancing bonds. These refundings generally reduce borrowing costs for State and local governmental issuers, and they also reduce Federal revenue costs of the Federal borrowing subsidies for State and local bonds. A general authorization for current refundings of State and local bonds not currently covered by specific refunding authority would promote greater uniformity, tax certainty, and borrowing cost savings. The Administration proposes to allow current refundings of these State or local bonds if: (1) the principal amount of the current refunding bonds is no greater than the outstanding principal amount of the refunded bonds; and (2) the weighted average maturity of the current refunding bonds is no longer than the remaining weighted average maturity of the refunded bonds. This proposal would be effective as of the date of enactment.

***Reform and expand the Low-Income Housing tax credit (LIHTC).***—To serve households in greater need and to provide incentives for creating mixed-income

housing, the Administration proposes to allow projects to comply with a rule under which the income limits for at least 40 percent of the units in a project could average to not greater than 60 percent of area median income (AMI). None of these units could be occupied by an individual with income greater than 80 percent of AMI, and any units with income limits less than 20 percent of AMI would be treated as being at 20 percent. A special rule would apply to rehabilitation projects that contain units that receive ongoing subsidies (e.g., rental assistance, operating subsidies, or interest subsidies) administered by the Department of Housing and Urban Development or the Department of Agriculture. If a tenant, when admitted to such a property, had an income not more than 60 percent of the then-applicable AMI and if, when the tenant's income is measured for purposes of LIHTC qualification, the income is greater than 60 percent of the now-applicable AMI but not more than 80 percent of AMI, then the proposal would make it possible for that tenant to remain in residence without impairing the LIHTCs earned by the project. The provision would apply to elections under section 42(g)(1) of the Internal Revenue Code that are made after the date of enactment.

The Administration also proposes to allow a 30-percent "basis boost" for LIHTCs for certain projects involving preservation, recapitalization, and rehabilitation of existing housing that was originally financed with Federal funds and is subject to a long-term use agreement limiting occupancy to low-income households. If the State housing finance agency grants a "Federal-Investment Protection Designation" to such rehabilitation, there would be two favorable consequences. First, the rehabilitation would be able to qualify for 30-percent-present-value LIHTCs without issuing bonds if the following two requirements are satisfied: (1) the rehabilitation receives a tax-exempt-volume-cap allocation that is not less than the amount of bonds that would be necessary to qualify for LIHTCs; and (2) the State's remaining volume cap is reduced as if tax-exempt bonds had been issued. Second, if the rehabilitation is eligible for 30-percent-present-value credits – either as a result of being bond financed or as a result of the new, alternative qualification – then the State housing finance agency would be able to designate some or all of the qualified basis of the rehabilitation for a 30 percent "boost." In each State, the basis receiving this "boost" designation in a calendar year would be limited to an amount equal to 0.8 percent of the State's volume cap for that calendar year. The aggregate amount of basis annually eligible for the "boost" could be carried forward for up to five years. The proposal would be effective for allocations of volume cap after the date of enactment. States' authorizations to designate basis for a "boost" would begin with the calendar year containing the date of enactment.

To increase the demand for LIHTCs, the Administration proposes to make them beneficial to REITs. If a REIT is entitled to LIHTCs for a taxable year, the REIT would be able to designate as tax exempt some of the dividends that it distributes to its shareholders. The maximum amount of dividends that could be designated in this fashion would be the quotient of the REIT's LIHTCs for

the year, divided by the highest corporate tax rate. Thus, the after-tax result for the REIT's shareholders would resemble the result as if the REIT had distributed both a taxable dividend and the LIHTCs themselves. If the REIT does not have sufficient earnings and profits to support a dividend for this entire amount, it could carry forward indefinitely the ability to make the designation. A regulated investment company (RIC) that receives such a tax-exempt dividend would itself be able to distribute to its shareholders that amount of tax-exempt dividends. The proposal would be effective for taxable years that end after the date of enactment.

The Administration also proposes to require LIHTC-supported housing to provide appropriate protections for victims of actual or threatened domestic violence. The Violence Against Women Act requires affordable housing that is supported by various other Federal programs to provide certain protections for these victims. Under the proposal, the long-term use agreements that must be executed for LIHTC-supported buildings would have to contain comparable protections. The proposal would be effective for long-term use agreements that are either first executed, or subsequently modified, on or after the date that is 30 days after enactment.

### **Continue Certain Expiring Provisions through Calendar Year 2013**

A number of temporary tax provisions that have been routinely extended have expired or are scheduled to expire on or before December 31, 2012. The Administration proposes to extend a number of these provisions through December 31, 2013. For example, the optional deduction for State and local general sales taxes; the deduction for qualified out-of-pocket class room expenses; the deduction for qualified tuition and related expenses; Subpart F "active financing" and "look-through" exceptions; the modified recovery period for qualified leasehold, restaurant, and retail improvements; and several trade agreements would be extended through December 31, 2013. Temporary incentives provided for the production of fossil fuels would be allowed to expire as scheduled under current law.

### **Upper-Income Tax Provisions**

#### ***Sunset the Bush Tax Cuts for Those with Income in Excess of \$250,000 (\$200,000 if Single)***

***Reinstate the limitation on itemized deductions for upper-income taxpayers.***—Prior to the enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), Public Law 107-16, the deduction for otherwise allowable itemized deductions (other than medical expenses, investment interest, theft and casualty losses, and wagering losses) was reduced by three percent of AGI in excess of certain thresholds, but not by more than 80 percent of the otherwise allowable amount. EGTRRA phased in the repeal of the limitation on item-



ized deductions over a five-year period, 2006 through 2010. The repeal of the limitation on itemized deductions was extended for two years through 2012 under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration's adjusted baseline assumes that the limitation on itemized deductions is permanently repealed. The Administration proposes to reinstate the limitations on itemized deductions for married taxpayers filing joint returns with income over \$250,000 (at 2009 levels) and for single taxpayers with income over \$200,000 (at 2009 levels), effective for taxable years beginning after December 31, 2012.

**Reinstate the personal exemption phaseout for upper-income taxpayers.**—Prior to the enactment of EGTRRA, the deduction for personal exemptions for the taxpayer and his or her dependents was phased out for taxpayers with AGI in excess of certain thresholds. EGTRRA phased in the repeal of the phaseout of personal exemptions over a five-year period, 2006 through 2010. The repeal of the phaseout of personal exemptions was extended for two years through 2012 under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration's adjusted baseline assumes that the phaseout of personal exemptions is permanently repealed. The Administration proposes to reinstate the phaseout of personal exemptions for married taxpayers filing joint returns with income over \$250,000 (at 2009 levels) and for single taxpayers with income over \$200,000 (at 2009 levels), effective for taxable years beginning after December 31, 2012.

**Reinstate the 36-percent and 39.6-percent rates for upper-income taxpayers.**—EGTRRA split the 15-percent statutory individual income tax rate bracket of prior law into two tax rate brackets of 10 and 15 percent, and replaced the four remaining statutory individual income tax rate brackets of 28, 31, 36 and 39.6 percent with statutory tax rate brackets of 25, 28, 33, and 35 percent. These tax rate brackets provided in EGTRRA, which were scheduled to expire on December 31, 2010, were extended through December 31, 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration's adjusted baseline assumes that these tax rate changes are made permanent. The Administration proposes to replace part of the 33-percent tax rate bracket and all of the 35-percent tax rate bracket with the prior law tax rate brackets of 36 and 39.6 percent. These rate increases would apply to married taxpayers filing a joint return with income over \$250,000 (at 2009 levels) and to single taxpayers with income over \$200,000 (at 2009 levels).

**Tax qualified dividends as ordinary income for upper-income taxpayers.**—Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), Public Law 108-27, the maximum tax rate on qualified dividends received by an individual shareholder was temporarily reduced to 15 percent for taxpayers in individual income tax rate brackets above 15 percent and to 5 percent (zero beginning in 2008) for lower-income taxpayers. Under prior law, dividends were taxed as ordinary income at rates of 15 percent to 39.6 percent. The reduced rates provided

under JGTRRA were extended for two years, through December 31, 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration's adjusted baseline assumes that these qualified dividend rate reductions are made permanent. The Administration proposes to tax qualified dividends at ordinary income tax rates for married taxpayers filing a joint return with income over \$250,000 (at 2009 levels) and for single taxpayers with income over \$200,000 (at 2009 levels). All other taxpayers would be taxed at the rates in effect in 2012. The proposal would be effective for dividends received after December 31, 2012.

**Tax net long-term capital gains at a 20-percent rate for upper-income taxpayers.**—Under JGTRRA, the maximum tax rate on net capital gains received by an individual shareholder was temporarily reduced to 15 percent for taxpayers in individual income tax rate brackets above 15 percent and to 5 percent (zero beginning in 2008) for lower-income taxpayers. Under prior law, the maximum tax rate on capital gains was generally 20 percent (18 percent for assets held over five years). The reduced rates provided under JGTRRA were extended for two years, through December 31, 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration's adjusted baseline assumes that these capital gains tax rate reductions are made permanent. The Administration proposes to tax net capital gains at a 20-percent rate for married taxpayers filing a joint return with income over \$250,000 (at 2009 levels) and for single taxpayers with income over \$200,000 (at 2009 levels). All other taxpayers would be taxed at the rates in effect in 2012. The 18-percent capital gain rate on assets held over five years would be repealed, but special rates on gains from the recapture of depreciation on certain real estate, collectibles, and small business stock would be retained. The proposal would be effective for capital gains realized after December 31, 2012.

#### **Reduce the Value of Certain Tax Expenditures**

**Reduce the value of certain tax expenditures.**—The Administration proposes to limit the tax rate at which upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent. This limitation would affect only married taxpayers filing a joint return with income adjusted for these tax preferences of over \$250,000 (at 2009 levels) and single taxpayers with income over \$200,000 (at 2009 levels). The limit would apply to all itemized deductions, tax-exempt interest, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions, effective for taxable years beginning after December 31, 2012.

#### **Modify Estate and Gift Tax Provisions**

**Restore the estate, gift, and GST tax parameters in effect in 2009.**—The Administration proposes to permanently extend estate, gift, and GST tax parameters as



they applied for calendar year 2009. Under those parameters, the estate of a decedent dying after December 31, 2012, would be taxed at a maximum tax rate of 45 percent with a life-time exclusion of \$3.5 million. Similarly, GSTs made after December 31, 2012, would be taxed at a maximum tax rate of 45 percent with a life-time exclusion of \$3.5 million. Gifts made after December 31, 2012, would be taxed at a maximum tax rate of 45 percent with a life-time exclusion of \$1 million. In addition, as reflected in the adjusted baseline, the portability of unused estate and gift exclusion amounts between spouses would be made permanent and would apply to decedents dying after December 31, 2012.

**Require consistency in value for transfer and income tax purposes.**—Current law provides generally that the basis of property inherited from a decedent is the property's fair market value at the decedent's death, and of property received by gift is the donor's adjusted basis in the property, increased by the gift tax paid on the transfer. A special limitation based on fair market value at the time of the gift applies if the property subsequently is sold by the donee at a loss. Although generally the same standards apply to determine the value subject to estate or gift tax, there is no explicit consistency rule that would require the recipient of the property to use for income tax purposes the value used for estate or gift tax purposes as the recipient's basis in that property when the basis is determined by reference to the fair market value on the date of death or gift. The Administration proposes to require that, for decedents dying and gifts made after enactment, the recipient's basis generally must equal (but in no event may exceed) the value of the property as determined for estate or gift tax purposes, and a reporting requirement would be imposed on the decedent's executor or the donor to provide the necessary information to both the recipient and the IRS. The proposal also would grant regulatory authority for the development of rules to govern situations in which this general rule would not be appropriate.

**Modify rules on valuation discounts.**—Current law provides that the fair market value for estate and gift tax purposes of certain interests transferred intrafamily is to be determined without taking into consideration certain "applicable restrictions" that would otherwise justify discounts for lack of marketability and control in the determination of that value. Judicial decisions and the enactment of new statutes in most states, in effect, have made these rules inapplicable in many situations that were intended to be subject to those rules. In addition, additional arrangements have been identified which purport to reduce the value of the taxable transfer for transfer tax purposes, without reducing the economic value to the recipient of the transferred interest. The Administration proposes to create an additional category of "disregarded restrictions" that also would be ignored in valuing certain transferred interests. Those interests would be valued instead by assuming the applicability of certain assumptions to be specified in regulations. Disregarded restrictions would include limitations on a holder's right to liquidate that holder's interest that are more restrictive than a standard to be identified in regulations, and

any limitation on a transferee's ability to be admitted as a full partner or holder of an equity interest in the entity. The proposal would include additional rules to support the implementation of the proposal, and would include a grant of appropriate regulatory authority. This proposal would apply to transfers of property subject to restrictions created after October 8, 1990 (the effective date of section 2704).

**Require a minimum term for grantor retained annuity trusts (GRATs).**—Current law provides that the value of the remainder interest in a GRAT for gift tax purposes is determined by deducting the present value of the annuity to be paid during the GRAT term from the fair market value of the property contributed to the GRAT. If the grantor of the GRAT dies during that term, the portion of the trust assets needed to produce the annuity is included in the grantor's gross estate for estate tax purposes. In practice, grantors commonly use brief GRAT terms (often of less than two years) and significant annuities to minimize both the risk of estate tax inclusion and the value of the remainder for gift tax purposes. The Administration proposes to require that, for all trusts created after the date of enactment, the GRAT must have a minimum term of ten years and a maximum term of ten years more than the annuitant's life expectancy, the value of the remainder at the creation of the trust must be greater than zero, and the annuity must not decrease during the GRAT term.

**Limit Duration of GST tax exemption.**—Current law provides that each person has a lifetime GST tax exemption (\$5,120,000 in 2012) that may be allocated to the person's transfers to or for the benefit of transferees who are two or more generations younger than the transferor ("skip persons"). The allocation of a person's GST exemption to such a transfer made in trust exempts from the GST tax not only the amount of the transfer (up to the amount of exemption allocated), but also all future appreciation and income from that amount during the existence of the trust. At the time of the enactment of the GST tax provisions, the law of almost all States included a Rule Against Perpetuities (RAP) that required the termination of every trust after a certain period of time. Because many States now either have repealed or limited the application of their RAP laws, trusts subject to the laws of those States may continue in perpetuity. As a result of this change in State laws, the transfer tax shield provided by the GST exemption effectively has been expanded from trusts funded with \$1 million and a maximum duration limited by the RAP, to trusts funded with \$5,120,000 and continuing (and growing) in perpetuity. The Administration proposes to limit the duration of the benefit of the GST tax exemption by imposing a bright-line test, more clearly administrable than the common law RAP, that, in effect, would terminate the GST tax exclusion on the 90th anniversary of the creation of the trust. An exception would be made for trusts that are distributed to another trust for the sole benefit of one individual if the distributee trust will be includable in the individual's gross estate for Federal estate tax purposes

to the extent it is not distributed to that individual during his or her life.

**Coordinate certain income and transfer tax rules applicable to grantor trusts.**—A grantor trust is ignored for income tax purposes, even though the trust may be irrevocable and the deemed owner may have no beneficial interest in the trust or its assets. The lack of coordination between the income tax and transfer tax rules applicable to a grantor trust creates opportunities to structure transactions between the trust and its deemed owner that are ignored for income tax purposes and can result in the transfer of significant wealth by the deemed owner without transfer tax consequences. The Administration proposes to change certain transfer tax rules regarding grantor trusts. To the extent that a grantor of a trust is deemed to be an owner for income tax purposes, the trust's assets would be included in that grantor's gross estate for estate tax purposes and would be subject to gift tax at any time during that grantor's life when the grantor ceases to be treated as an owner for income tax purposes. This proposal also would apply to any non-grantor deemed to be an owner of the trust to the extent that the non-grantor engaged in a sale, exchange, or comparable transaction with the trust that would have subjected the non-grantor to capital gains tax if that person had not been a deemed owner of the trust. The transfer taxes would be payable from the trust.

**Extend the lien on estate tax deferrals provided under section 6166 of the Internal Revenue Code.**—There is a lien on nearly all estate assets for the ten-year period immediately following a decedent's death to secure the full payment of the Federal estate tax. However, when the estate tax payments on interests in certain closely held businesses are deferred under section 6166, this lien expires approximately five years before the due date of the final payment of the deferred tax. Existing methods of protecting the Federal government's interest in collecting the amounts due are expensive and may be harmful to businesses. The Administration proposes to extend the existing estate tax lien throughout the section 6166 deferral period to eliminate the need for any additional security in a manner that is economical and efficient for both taxpayers and the Federal government.

### Reform U.S. International Tax System

**Defer deduction of interest expense related to deferred income of foreign subsidiaries.**—Under current law, a taxpayer that incurs interest expense properly allocable and apportioned to foreign-source income may be able to deduct that expense even if some or all of the foreign-source income is not subject to current U.S. taxation. To provide greater matching of the timing of interest expense deductions and recognition of associated income, the Administration proposes to defer the deduction of interest expense properly allocable and apportioned to stock of foreign subsidiaries to the extent the taxpayer's share of the income of such subsidiaries is deferred.

**Determine the foreign tax credit on a pooling basis.**—Under the Administration's proposal, a taxpayer

would be required to determine foreign tax credits from the receipt of income with respect to stock of a foreign subsidiary on a consolidated basis for all its foreign subsidiaries. Foreign tax credits from the receipt of income with respect to stock of a foreign subsidiary would be based on the consolidated earnings and profits and foreign taxes of all the taxpayer's foreign subsidiaries.

**Tax currently excess returns associated with transfers of intangibles offshore.**—The IRS has broad authority to allocate income among commonly controlled businesses under section 482 of the Internal Revenue Code. Notwithstanding the transfer pricing rules, there is evidence of income shifting offshore, including through transfers of intangible rights to subsidiaries that bear little or no foreign income tax. Under the Administration's proposal, if a U.S. parent transfers an intangible to a controlled foreign corporation (CFC) in circumstances that demonstrate excessive income shifting from the United States, then an amount equal to the excessive return would be treated as subpart F income.

**Limit shifting of income through intangible property transfers.**—The Administration proposes to clarify the definition of intangible property for purposes of the special rules relating to transfers of intangibles by a U.S. person to a foreign corporation (section 367(d) of the Internal Revenue Code) and the allocation of income and deductions among taxpayers (section 482) to prevent inappropriate shifting of income outside the United States.

**Disallow the deduction for non-taxed reinsurance premiums paid to affiliates.**—Under the Administration's proposal, a U.S. insurance company would be denied a deduction for certain non-taxed reinsurance premiums paid to affiliates, offset by an exclusion for return premiums, ceding commissions, reinsurance recovered, or other amounts received from affiliates.

**Limit earnings stripping by expatriated entities.**—Under the Administration's proposal, the rules that limit the deductibility of interest paid to related persons subject to low or no U.S. tax on that interest would be amended to prevent inverted companies from using foreign-related-party and certain guaranteed debt to reduce inappropriately the U.S. tax on income earned from their U.S. operations.

**Modify tax rules for dual capacity taxpayers.**—The Administration proposes to tighten the foreign tax credit rules that apply to taxpayers that are subject to a foreign levy and that also receive (directly or indirectly) a specific economic benefit from the levying country (so-called "dual capacity" taxpayers).

**Tax gain from the sale of a partnership interest on look-through basis.**—Under the Administration's proposal, gain or loss from the sale of a partnership interest would be treated as effectively connected with the conduct of a trade or business in the United States and subject to U.S. income taxation to the extent attributable to the partner's share of the partnership's unrealized gain or loss from property used in a trade or business in the United States. The proposal would also require the purchaser of a partnership interest to withhold 10 percent of the purchase price to ensure the seller's compliance.

**Prevent use of leveraged distributions from related foreign corporations to avoid dividend treatment.**—To address concerns that taxpayers may repatriate offshore earnings through a related corporation and avoid current taxation, the Administration proposes to tax immediately a non-dividend distribution from a foreign corporation to the extent the distribution was funded by a related foreign corporation with a principal purpose of avoiding dividend treatment from distributions to a U.S. shareholder.

**Extend section 338(h)(16) of the Internal Revenue Code to certain asset acquisitions.**—Under section 338, taxpayers can elect to treat the acquisition of the stock of a corporation in a taxable transaction as an acquisition of the corporation's assets for U.S. tax purposes. Because this election does not alter the foreign tax consequences of the transaction, section 338(h)(16) limits the ability of taxpayers to claim additional foreign tax credits by generally requiring the seller to continue to treat the gain recognized on the transaction as gain from the sale of stock for foreign tax credit purposes. The Administration proposes to extend the rules limiting the ability of taxpayers to claim additional foreign tax credits as a result of a section 338 election to other similar transactions that are treated as asset acquisitions for U.S. tax purposes but that are treated as acquisitions of an equity interest in an entity for foreign tax purposes.

**Remove foreign taxes from a section 902 corporation's foreign tax pool when earnings are eliminated.**—Under the Administration's proposal, foreign income taxes paid by a foreign corporation would be reduced if a redemption transaction results in the elimination of earnings and profits of the foreign corporation. The foreign income taxes reduced under the proposal would be the foreign income taxes that are associated with the eliminated earnings and profits.

### Reform Treatment of Financial and Insurance Industry Institutions and Products

**Impose a financial crisis responsibility fee.**—The Administration proposes to impose a fee on U.S.-based bank holding companies, thrift holding companies, certain broker-dealers, as well as companies that control insured depositories and certain broker-dealers, with assets in excess of \$50 billion. U.S. subsidiaries of international firms that fall into these categories with assets in excess of \$50 billion would also be covered. The fee would raise approximately \$60 billion over ten years.

**Require accrual of income on forward sale of corporate stock.**—A corporation generally does not recognize gain or loss on the issuance or repurchase of its own stock. Thus, a corporation does not recognize gain or loss when it issues its stock in the future pursuant to a contract that entitles the corporation to receive a specified amount of consideration when the contract settles (typically referred to as a forward contract). A corporation does, however, recognize interest income upon the current sale of any stock (including its own) for a payment to be received in the future. The only difference between a cor-

porate issuer's current sale of its stock for deferred payment and an issuer's forward sale of the same stock is the timing of the stock issuance. In a current sale, the stock is issued at the inception of the transaction, whereas in a forward sale the stock is issued at the time the deferred payment is received. In both cases, a portion of the deferred payment economically compensates the corporation for the time value of deferring the payment. It is inappropriate to treat these two transactions differently. The Administration proposes to require a corporation that enters into a forward contract to sell its own stock to treat a portion of the payment received when the stock is issued as a payment of interest. The proposal would be effective for forward contracts entered into after December 31, 2012.

**Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities.**—Under current law, certain dealers in securities, equity options, commodities, and commodities derivatives treat the income from section 1256 contracts entered into in their capacity as a dealer as generating 60 percent long-term capital gain (or loss) and 40 percent short-term capital gain (or loss). Dealers in other types of property uniformly treat the income generated by their dealer activities as ordinary income. There is no reason to treat dealers in different types of property differently. The Administration's proposal would therefore require dealers in securities, equity options, commodities, and commodities derivatives to treat the income (or loss) from their dealer activities as ordinary in character.

**Modify the definition of "control" for purposes of section 249 of the Internal Revenue Code.**—In general, if a corporation repurchases a debt instrument that is convertible into its stock, or into stock of a corporation in control of, or controlled by, the corporation, section 249 may disallow or limit the issuer's deduction for any premium paid to repurchase the debt instrument. For this purpose, "control" is determined by reference to section 368(c), which encompasses only direct relationships (e.g., a parent corporation and its wholly-owned, first tier subsidiary). The definition of "control" in section 249 is narrow and has allowed the limitation in section 249 to be too easily avoided. Indirect control relationships (e.g., a parent corporation and a second-tier subsidiary) present the same economic identity of interests as direct control relationships and should be treated in a similar manner. The Administration proposes to amend the definition of "control" in section 249(b)(2) by referencing the definition of a controlled group in section 1563(a)(1), which includes indirect control relationships.

**Modify rules that apply to sales of life insurance contracts.**—The seller of a life insurance contract generally must report as taxable income the difference between the amount received from the buyer and the adjusted basis of the contract. When death benefits are received under the contract, the buyer is taxed on the excess of those benefits over the amounts paid for the contract, unless an exception to a "transfer-for-value rule" applies. Information reporting may not always be required in circumstances involving the purchase of a life insurance contract. In



response to the growth in the number and size of life settlement transactions, the Administration proposes to expand information reporting on the sale of life insurance contracts and the payment of death benefits on contracts that were sold, and would modify the “transfer-for-value” exceptions to prevent purchasers of policies from avoiding tax on death benefits that are received. The proposal would apply to sales or assignments of interests in life insurance policies and payments of death benefits for taxable years beginning after December 31, 2012.

**Modify proration rules for life insurance company general and separate accounts.**—Under current law, a life insurance company is required to “prorate” its net investment income between a company’s share and a policyholder’s share. The result of this proration calculation is used to limit the funding of tax-deductible reserve increases with tax-preferred income, such as certain corporate dividends and tax-exempt interest. The complexity of this regime has generated significant controversy between life insurance companies and the IRS. In some cases, the existing regime produces a company’s share that exceeds the company’s actual economic interest in the underlying income. The Administration proposes to replace this regime with one that is much simpler. Under the proposal, the general account dividends received deduction (DRD), tax-exempt interest, and increases in certain policy cash values would be subject to the same flat policyholders’ proration percentage that applies to non-life insurance companies (15 percent under current law); the DRD with regard to separate account dividends would be based on the proportion of reserves to total assets of the account. The proposal would be effective for taxable years beginning after December 31, 2012.

**Expand pro rata interest expense disallowance for corporate-owned life insurance (COLI).**—The interest deductions of a business other than an insurance company are reduced to the extent the interest is allocable to unborrowed policy cash values on life insurance and annuity contracts. The purpose of this pro rata disallowance is to prevent the deduction of interest expense that is allocable to inside buildup that is either tax-deferred or not taxed at all. A similar disallowance applies with regard to reserve deductions of an insurance company. A current-law exception to this rule applies to contracts covering the lives of officers, directors, employees, and 20-percent owners. The Administration proposes to repeal the exception for officers, directors, and employees unless those individuals are also 20-percent owners of the business that is the owner or beneficiary of the contracts. Thus, purchases of life insurance by small businesses and other taxpayers that depend heavily on the services of a 20-percent owner would be unaffected, but the funding of deductible interest expenses with tax-exempt or tax-deferred inside buildup would be curtailed. The proposal would apply to contracts issued after December 31, 2012, in taxable years ending after that date.

## Eliminate Fossil Fuel Preferences

**Eliminate fossil fuel tax preferences.**—Current law provides a number of credits and deductions that are targeted towards certain oil, gas, and coal activities. In accordance with the President’s agreement at the G-20 Summit in Pittsburgh to phase out subsidies for fossil fuels so that The Nation can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels. The following tax preferences available for oil and gas activities are proposed to be repealed beginning in 2013: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and gas produced from marginal wells; (3) the expensing of intangible drilling costs; (4) the deduction for costs paid or incurred for any tertiary injectant used as part of a tertiary recovery method; (5) the exception to passive loss limitations provided to working interests in oil and natural gas properties; (6) the use of percentage depletion with respect to oil and gas wells; and (7) two-year amortization of independent producers’ geological and geophysical expenditures, instead allowing amortization over the same seven-year period as for integrated oil and gas producers. The following tax preferences available for coal activities are proposed to be repealed beginning in 2013: (1) expensing of exploration and development costs; (2) percentage depletion for hard mineral fossil fuels; and (3) capital gains treatment for royalties. As discussed in the paragraph describing the Administration’s proposal to target the domestic production activities deduction, the Administration proposes to repeal the deduction for oil and gas and other fossil fuel production.

## Other Revenue Changes and Loophole Closers

**Levy a fee on the production of hardrock minerals to restore abandoned mines.**—Until 1977, there were no Federal requirements to restore land after mining for coal, leaving nearly \$4 billion worth of abandoned coal mine hazards remaining today. The Department of the Interior collects a fee on every ton of coal produced in the United States to finance the reclamation of these abandoned coal mines. Historic mining of hardrock minerals, such as gold and copper, also left numerous abandoned mine lands (AML); however, there is no similar source of Federal funding to reclaim these sites. Just as the coal industry is held responsible for the actions of its predecessors, the Administration proposes to hold the hardrock mining industry responsible for abandoned hardrock mines. The proposed fee on the production of hardrock minerals would be charged per volume of material displaced after January 1, 2013, and the receipts would be distributed through a competitive grant program to restore the most hazardous hardrock AML sites, on both public and private lands.

**Increase Oil Spill Liability Trust Fund financing rate by one cent and update the law to include other sources of crudes.**—An excise tax is imposed on: (1) crude oil received at a U.S. refinery; (2) imported pe-



roleum products entered into the United States for consumption, use, or warehousing; and (3) any domestically produced crude oil that is used (other than on the premises where produced for extracting oil or natural gas) in or exported from the United States if, before such use or exportation, no taxes were imposed on the crude oil. Under current law, the tax does not apply to crudes such as those produced from bituminous deposits as well as kerogen-rich rock. The tax is deposited in the Oil Spill Liability Trust Fund. Amounts in the trust fund are used for several purposes, including the payment of costs associated with responding to and removing oil spills. The tax imposed on crude oil and imported petroleum products is eight cents per barrel, effective for periods after December 31, 2008, and before January 1, 2017, and nine cents per barrel, effective for periods after December 31, 2016. The Administration proposes to increase these taxes by one cent per barrel, to nine cents per barrel beginning on January 1, 2013, and to 10 cents per barrel after December 31, 2016. In addition, the Administration proposes to update the law to include other sources of crudes such as those produced from bituminous deposits as well as kerogen-rich rock. The tax would cover, at the applicable rate, other sources of crudes received at a U.S. refinery, entered into the United State, or used or exported as described above after December 31, 2012. The Superfund tax on crude oil and petroleum products, which the Administration is proposing to reinstate (see the following discussion), would also be imposed on these substances.

**Reinstate Superfund taxes.**—The Administration proposes to reinstate the taxes that were deposited in the Hazardous Substance Superfund prior to their expiration on December 31, 1995. These taxes, which contributed to financing the cleanup of the nation's highest risk hazardous waste sites, are proposed to be reinstated for periods (excise taxes) or tax years (income tax) beginning after 2012, with expiration for periods and tax years after 2022. The proposed taxes include the following: (1) an excise tax of 9.7-cents-per-barrel on crude oil and imported petroleum products; (2) an excise tax on hazardous chemicals listed in 26 U.S.C. § 4661 at rates that vary from 22 cents to \$4.87 per ton; (3) an excise tax on imported substances that use listed hazardous chemicals as a feedstock (in an amount equivalent to the tax that would have been imposed on domestic production of the chemicals); and (4) a corporate environmental income tax imposed at a rate of 0.12 percent on the amount by which the modified AMT income of a corporation exceeds \$2 million. Consistent with the Administration's proposal regarding taxes deposited in the Oil Spill Liability Trust Fund, the Superfund excise tax on crude oil and petroleum products would cover other sources of crudes such as those produced from bituminous deposits as well as kerogen-rich rock.

**Make unemployment insurance (UI) surtax permanent.**—The net Federal UI tax on employers dropped from 0.8 percent to 0.6 percent with respect to wages paid after June 30, 2011. The Administration proposes to permanently reinstate the 0.8 percent rate, effective with respect to wages paid on or after January 1, 2013.

**Provide short-term tax relief to employers and expand Federal Unemployment Tax Act (FUTA) base.**—The economic downturn has severely tested the adequacy of States' UI systems, forcing the majority of States to borrow to continue paying benefits. These debts are now being repaid through additional taxes on employers, which undermine much-needed job creation. To provide short-term relief to employers in these States, the Administration proposes a suspension of interest on State UI borrowing in 2012 and 2013 along with a suspension of the FUTA credit reduction, which is an automatic debt repayment mechanism. The Administration also proposes to increase the FUTA taxable wage base to \$15,000 starting in 2015, to index it to inflation, and to reduce the FUTA tax rate. States with lower wage bases will need to adjust their UI tax structures. This will put State UI systems on a firmer financial footing for the future.

**Expand Short-Time Compensation (STC) unemployment program.**—The Administration's proposal will encourage States to expand use of the STC unemployment program, also known as work sharing, which promotes job retention and prevents workers from being laid off. Work sharing is a voluntary employer program designed to help employers maintain their staff by reducing the weekly hours of their employees, instead of temporarily laying off workers, when the employer is faced with a temporary slowdown in business. Workers with reduced hours under an approved STC plan receive a partial unemployment check to supplement the reduced paycheck. The Administration's proposal will provide temporary Federal financing of STC benefits for those States that have an STC law that meets certain guidelines. It will also create a temporary Federal program that will be available in other States and provide incentive funds for States to adopt the program and conduct outreach to employers. These incentives will make STC benefits available to more workers and allow States to reduce their unemployment taxes.

**Extend Federal unemployment benefits and invest in program integrity.**—The Administration proposes to extend Federal unemployment benefits through 2012 to provide a helping hand to long-term unemployed workers looking for work who were laid off through no fault of their own. Along with Emergency Unemployment Compensation (EUC), the Administration proposes to extend 100-percent Federal financing of Extended Benefits (EB) for States with particularly high unemployment. The cost of EB is typically split 50-50 between the Federal Government and the States. Picking up the extra cost of these unemployment benefits allows States to keep their unemployment taxes low, reducing the tax burden on businesses, but providing lower receipts for the UI program as a whole. The Administration also proposes to make investments in program integrity by increasing funding for Reemployment and Eligibility Assessments (REAs), which are provided by the States. These assessments help ensure that benefits go only to eligible claimants and also provide help with work-search strategies. The Administration's proposal provides additional funding for REAs for regular UI recipients and proposes funding

for REAs and reemployment services for EUC recipients. Both of these proposals, if enacted, will reduce UI outlays by cutting down on improper payments and getting claimants back to work more quickly. Reduced outlays will allow States to keep UI taxes lower, reducing overall receipts in the UI trust funds.

**Repeal last-in, first-out (LIFO) method of accounting for inventories.**—Under the LIFO method of accounting for inventories, it is assumed that the cost of the items of inventory that are sold is equal to the cost of the items of inventory that were most recently purchased or produced. The Administration proposes to repeal the use of the LIFO accounting method for Federal tax purposes, effective for taxable years beginning after December 31, 2013. Assuming inventory costs rise over time, taxpayers required to change from the LIFO method under the proposal generally would experience a permanent reduction in their deductions for cost of goods sold and a corresponding increase in their annual taxable income as older, cheaper inventory is taken into account in computing taxable income. Taxpayers required to change from the LIFO method also would be required to report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change, causing a one-time increase in taxable income that would be recognized ratably over ten years.

**Repeal lower-of-cost-or-market inventory accounting method.**—The Administration proposes to prohibit the use of the lower-of-cost-or-market and subnormal goods methods of inventory accounting, which currently allow certain taxpayers to take cost-of-goods-sold deductions on certain merchandise before the merchandise is sold. The proposed prohibition would be effective for the first taxable year beginning after December 31, 2013, and any resulting income inclusion would be recognized ratably over four years.

**Eliminate special depreciation rules for purchases of general aviation passenger aircraft.**—Under current law, airplanes used in commercial and contract carrying of passengers and freight generally are depreciated over seven years. Airplanes not used in commercial or contract carrying of passengers or freight, such as corporate jets, generally are depreciated over five years. The Administration proposes to increase the depreciation recovery period for general aviation airplanes that carry passengers to seven years, effective for such airplanes placed in service after December 31, 2012.

**Repeal gain limitation for dividends received in reorganization exchanges.**—A limitation on recognition of gain for certain qualified corporate reorganizations (section 356(a)(1) of the Internal Revenue Code) can result in distributions of property with minimal U.S. tax consequences. The Administration proposes to repeal this limitation in reorganization transactions in which the acquiring corporation is either domestic or foreign and the shareholder's exchange has the effect of the distribution of a dividend (within the meaning of section 356(a)(2)). The proposal would be effective for taxable years beginning after December 31, 2012.

**Tax carried (profits) interests as ordinary income.**—A partnership does not pay Federal income tax; instead, an item of income or loss of the partnership and associated character flows through to the partners who must include such items on their income tax returns. Certain partners receive partnership interests, typically interests in future profits, in exchange for services (commonly referred to as “profits interests” or “carried interests”). Current law taxes the recipient of a carried interest on the value at the time granted, which may be based on the value the partner would receive if the partnership were liquidated immediately (for example, the value of an interest only in future profits would be zero). Because the partners, including partners who provide services, reflect their share of partnership items on their tax return in accordance with the character of the income at the partnership level, long-term capital gains and qualifying dividends attributable to carried interests may be taxed at a maximum 15-percent rate (the maximum tax rate on capital gains) rather than at ordinary income tax rates. The Administration proposes to designate a carried interest in an investment partnership as an “investment services partnership interest” (ISPI) and to tax a partner's share of income from an ISPI that is not attributable to invested capital as ordinary income, regardless of the character of the income at the partnership level. In addition, the partner would be required to pay self-employment taxes on such income, and the gain recognized on the sale of an ISPI that is not attributable to invested capital would generally be taxed as ordinary income, not as capital gain. However, any allocation of income or gain attributable to invested capital on the part of the partner would be taxed as ordinary income or capital gain based on its character to the partnership and any gain realized on a sale of the interest attributable to such partner's invested capital would be treated as capital gain or ordinary income as provided under current law. The proposal would be effective for tax years ending after December 31, 2012.

**Expand the definition of built-in loss for purposes of partnership loss transfers.**—Section 743(b) provides that upon a sale or exchange of a partnership interest, a partnership that either has a section 754 election in effect or has a substantial built-in loss in its assets must adjust the bases of its assets under the rules of section 755. Section 743(d) defines a substantial built-in loss by reference to the partnership's adjusted basis – that is, there is a substantial built-in loss if the partnership's adjusted bases in its assets exceeds by more than \$250,000 the fair market value of such property. Although the provision prevents the duplication of losses where the partnership has a substantial built-in loss in its assets, it does not prevent the duplication of losses where the transferee partner would be allocated a loss in excess of \$250,000 if the partnership sold all of its assets, but the partnership itself does not have a substantial built-in loss in its assets. Accordingly, the Administration proposes to amend section 743 to measure a substantial built-in loss also by reference to whether the transferee would be allocated a loss in excess of \$250,000 if the partnership sold all of its assets immediately after the sale or exchange.

**Extend partnership basis limitation rules to non-deductible expenditures.**—Section 704(d) provides that a partner's distributive share of loss is allowed only to the extent of the partner's adjusted basis in its partnership interest at the end of the partnership year in which such loss occurred. Any excess is allowed as a deduction at the end of the partnership year in which the partner has sufficient basis in its partnership interest to take the deductions. Section 704(d) does not apply to partnership expenditures that are not deductible in computing its taxable income and not properly chargeable to capital account. Thus, even though a partner's distributive share of nondeductible expenditures reduces the partner's basis in its partnership interest, such items are not subject to section 704(d) and the partner may deduct or credit them currently even if the partner's basis in its partnership interest is zero. The Administration proposes to amend section 704(d) to allow a partner's distributive share of expenditures not deductible in computing the partnership's taxable income and not properly chargeable to capital account only to the extent of the partner's adjusted basis in its partnership interest at the end of the partnership year in which such expenditure occurred.

**Limit the importation of losses under section 267(d) of the Internal Revenue Code.**—If a loss sustained by a transferor is disallowed under section 267(a)(1) or section 707(b)(1) because the transferor and transferee are related under section 267(b) or section 707(b)(1), as the case may be, section 267(d) provides that the transferee may reduce any gain the transferee later recognizes on a disposition of the transferred asset by the amount of the loss disallowed to the transferor. This has the effect of shifting the benefit of the loss from the transferor to the transferee. Thus, losses can be imported where gain or loss with respect to the property is not subject to Federal income tax in the hands of the transferor immediately before the transfer but any gain or loss with respect to the property is subject to Federal income tax in the hands of the transferee immediately after the transfer. To prevent this, the Administration proposes to amend section 267(d) to provide that the principles of section 267(d) do not apply to the extent gain or loss with respect to the property is not subject to Federal income tax in the hands of the transferor immediately before the transfer but any gain or loss with respect to the property is subject to Federal income tax in the hands of the transferee immediately after the transfer.

**Deny deduction for punitive damages.**—The Administration proposes to deny tax deductions for punitive damages paid or incurred by a taxpayer, whether upon a judgment or in settlement of a claim. Where the liability for punitive damages is covered by insurance, such damages paid or incurred by the insurer would be included in the gross income of the insured person. This proposal would apply to damages paid or incurred after December 31, 2013.

**Eliminate the deduction for contributions of conservation easements on golf courses.**—Under current law, a charitable contribution deduction is generally not allowed for a contribution of a partial interest in property.

However, a donor may deduct the value of a conservation easement donated to a qualified charitable organization exclusively for conservation purposes. The value of the deduction for any contribution that produces a return benefit to the donor must be reduced by the value of the benefit received. Contributions of easements on golf courses have raised concerns that the deduction amounts claimed for such easements are excessive, and also that the conservation easement deduction is not narrowly tailored to promote only bona fide conservation activities, as opposed to the private interests of donors. The proposal would amend the charitable contribution deduction provision to prohibit a deduction for any contribution of property that is, or is intended to be, used as a golf course.

## Reduce the Tax Gap and Make Reforms

### Expand Information Reporting

**Require information reporting for private separate accounts of life insurance companies.**—Earnings from direct investments in assets generally result in taxable income to the holder, whereas investment in comparable assets through a separate account of a life insurance company generally gives rise to tax-free or tax-deferred income. This favorable tax treatment is unavailable if the policyholder has so much control over the investments in the account that the policyholder, rather than the company, should be treated as the owner of those investments. The proposal would require information reporting with regard to each life insurance or annuity contract whose investment in a separate account represents at least 10 percent of the value of the account. The proposal would be effective for taxable years beginning after December 31, 2012.

**Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding.**—Currently, withholding is not required or permitted for payments to contractors. Since contractors are not subject to withholding, they may be required to make quarterly payment of estimated income taxes and self-employment (SECA) taxes near the end of each calendar quarter. An optional withholding method for contractors would reduce the burdens of having to make quarterly payments, would help contractors automatically set aside funds for tax payments, and would help increase compliance. Under the Administration's proposal, a contractor receiving payments of \$600 or more in a calendar year from a particular business would be required to furnish to the business the contractor's certified TIN. A business would be required to verify the contractor's TIN with the IRS, which would be authorized to disclose, solely for this purpose, whether the certified TIN-name combination matches IRS records. Contractors receiving payments of \$600 or more in a calendar year from a particular business could require the business to withhold a flat rate percentage of their gross payments. This proposal would be effective for payments made to contractors after December 31, 2012.



### *Improve Compliance by Businesses*

**Require greater electronic filing of returns.**—Generally, compliance increases when taxpayers are required to provide better information to the IRS in usable form. The Administration proposes that regulatory authority be granted to the Department of the Treasury to require that information returns be filed electronically. Also, corporations and partnerships with assets of \$10 million or more that are required to file Schedule M-3 would be required to file their tax returns electronically. In the case of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations), the regulatory authority to require electronic filing would allow reduction of the current threshold of filing 250 or more returns during a calendar year. The proposal would be effective for taxable years ending after December 31, 2012.

**Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports.**—The annual report filing for tax-qualified employee benefit plans (as well as certain other types of plans) is a joint IRS and Department of Labor (DOL) filing requirement and is submitted electronically to both agencies on one form. This filing serves as the primary tool for gathering information and for targeting enforcement activity. (It also serves to satisfy certain requirements for filing with the PBGC.) The DOL mandates electronic filing of this form, but the IRS lacks general statutory authority to require electronic filing of returns unless the person subject to the filing requirement must file at least 250 returns during the year. As a result, information relevant only to tax code requirements (such as data on coverage needed to test compliance with nondiscrimination rules) and not to DOL's ERISA Title I jurisdiction cannot be requested on the joint form and currently is not collected. Collecting it would require a separate "IRS only" form that could be filed on paper, a process that would be neither simple nor efficient for taxpayers or for the IRS and DOL. The Administration proposes to provide the IRS authority to require the inclusion of information that is relevant only to employee benefit plan tax requirements in the electronically filed annual reports to the same extent that DOL can require such electronic reporting. The proposal would be effective for plan years beginning after December 31, 2012.

**Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.**—Under current law, there is often uncertainty whether an employee leasing company or its client is liable for unpaid Federal employment taxes arising with respect to wages paid to the client's workers. Providing standards for when an employee leasing company and its clients will be held liable for Federal employment taxes will facilitate the assessment, payment, and collection of those taxes and will preclude taxpayers who have control over withholding and payment of those taxes from denying liability when the taxes are not paid. The Administration proposes to set

forth standards for holding employee leasing companies jointly and severally liable with their clients for Federal employment taxes. The proposal would also provide standards for holding employee leasing companies solely liable for such taxes if they meet specified requirements. The proposal would be effective for employment tax returns required to be filed with respect to wages paid after December 31, 2012.

**Increase certainty with respect to worker classification.**—Under current law, worker classification as an employee or as a self-employed person (independent contractor) is generally based on a common-law test for determining whether an employment relationship exists. Under a special provision (section 530 of the Revenue Act of 1978), a service recipient may treat a worker who may actually be an employee as an independent contractor for Federal employment tax purposes if, among other things, the service recipient has a reasonable basis for treating the worker as an independent contractor. If a service recipient meets the requirements of this special provision with respect to a class of workers, the IRS is prohibited from reclassifying the workers as employees, even prospectively. The special provision also prohibits the IRS from issuing generally applicable guidance about the proper classification of workers. The Administration proposes to permit the IRS to issue generally applicable guidance about the proper classification of workers and to permit the IRS to require prospective reclassification of workers who are currently misclassified and whose reclassification is prohibited under the special provision. Penalties would be waived for service recipients with only a small number of employees and a small number of misclassified workers, if the service recipient had consistently filed all required information returns reporting all payments to all misclassified workers and the service recipient agreed to prospective reclassification of misclassified workers. It is anticipated that after enactment, new enforcement activity would focus mainly on obtaining the proper worker classification prospectively, since in many cases the proper classification of workers may not be clear.

**Repeal special estimated tax payment provision for certain insurance companies.**—The deductible unpaid loss reserves of insurance companies are required to be computed on a discounted basis to reflect the time value of money. However, a taxpayer may elect to deduct an additional amount equal to the difference between discounted and undiscounted reserves, if it also makes a "special estimated tax payment" equal to the tax benefit attributable to the extra deduction. The special estimated tax payments are applied against the company's tax liability in future years as reserves are released. This provision requires complex record keeping yet, by design, is revenue neutral. The Administration proposes to repeal the provision effective for taxable years beginning after December 31, 2012.

**Eliminate special rules modifying the amount of estimated tax payments by corporations.**—Corporations generally are required to pay their income tax liability in quarterly estimated payments. For corporations that keep their accounts on a calendar year basis,



these payments are generally due on or before April 15, June 15, September 15, and December 15 of the particular taxable year. The amount due each quarter is generally one-quarter (25 percent) of the amount due for the year. A number of legislative acts have modified the standard rules as to the amount due by “large corporations” for a particular quarter. The Administration proposes to repeal all legislative changes that affect the amount of corporate estimated payments due for any particular quarter. The proposal would be effective for taxable years beginning after December 31, 2012.

### ***Strengthen Tax Administration***

***Streamline audit and adjustment procedures for large partnerships.***—Under current law, large partnerships, other than electing large partnerships (ELPs), are subject to the unified audit rules established under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), Public Law 97-248. ELPs are subject to streamlined audit and adjustment procedures. ELPs are generally defined as partnerships that have 100 or more partners during the preceding taxable year and elect to be treated as an ELP. Since the enactment of the ELP regime, few large partnerships have elected into the ELP regime. Thus, the more complex and inefficient TEFRA partnership audit and adjustment procedures apply for most large partnerships. The Administration proposes to create a new mandatory Required Large Partnership (RLP) regime for any partnership that has 1,000 or more partners at any time during the taxable year. The RLP regime would provide many of the same streamlined audit and adjustment procedures as apply to ELPs. The proposal would apply to a partnership’s taxable year ending on or after the date that is two years from the date of enactment.

***Revise offer-in-compromise application rules.***—Current law provides that the IRS may compromise any civil or criminal case arising under the internal revenue laws prior to a referral to the Department of Justice for prosecution or defense. In 2006, a provision was enacted to require taxpayers to make certain nonrefundable payments with any initial offer-in-compromise of a tax case. Requiring nonrefundable payments with an offer-in-compromise may substantially reduce access to the offer-in-compromise program. Reducing access to the offer-in-compromise program makes it more difficult and costly for the IRS to obtain the collectable portion of existing tax liabilities. Accordingly, the Administration proposes eliminating the requirements that an initial offer-in-compromise include a nonrefundable payment of any portion of the taxpayer’s offer.

***Expand IRS access to information in the National Directory of New Hires (NDNH) for tax administration purposes.***—Employment data are useful to the IRS in administering a wide range of tax provisions, including verifying taxpayer claims and identifying levy sources. Currently, the IRS may obtain employment and unemployment data on a State-by-State basis, which is a costly and time-consuming process. The Administration proposes to amend the Social Security Act to expand IRS

access to the NDNH data for general tax administration purposes, including data matching, verification of taxpayer claims during return processing, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources. Data obtained by the IRS from the NDNH would be protected by existing taxpayer privacy law, including civil and criminal sanctions.

***Make repeated willful failure to file a tax return a felony.***—Current law provides that willful failure to file a tax return is a misdemeanor punishable by a term of imprisonment for not more than one year, a fine of not more than \$25,000 (\$100,000 in the case of a corporation), or both. The Administration would modify this rule such that any person who willfully fails to file tax returns in any three years within any five consecutive year period, if the aggregated tax liability for such period is at least \$50,000, would be subject to a new aggravated failure to file criminal penalty. The proposal would classify such failure as a felony and, upon conviction, impose a fine of not more than \$250,000 (\$500,000 in the case of a corporation) or imprisonment for not more than five years, or both. The proposal would be effective for returns required to be filed after December 31, 2012.

***Facilitate tax compliance with local jurisdictions.***—Although Federal tax returns and return information (FTI) generally are confidential, the IRS and Department of the Treasury may share FTI with States as well as certain local government entities that are treated as States for this purpose. IRS and Department of the Treasury compliance activity, especially with respect to alcohol, tobacco, and fuel excise taxes, may necessitate information sharing with Indian Tribal Governments (ITGs). The Administration’s proposal would specify that ITGs that impose alcohol, tobacco, or fuel excise taxes, or income or wage taxes, would be treated as States for purposes of information sharing to the extent necessary for ITG tax administration. The ITG that receives FTI would be required to safeguard it according to prescribed protocols.

***Extend statute of limitations where State adjustment affects Federal tax liability.***—In general, additional Federal tax liabilities in the form of tax, interest, penalties, and additions to tax must be assessed by the IRS within three years after the date a return is filed. Pursuant to agreement, the IRS and State and local revenue agencies exchange reports of adjustments made through examination so that corresponding adjustments can be made by each taxing authority. The general statute of limitations for assessment of Federal tax liabilities serves as a barrier to the effective use by the IRS of State and local tax adjustment reports when the reports are provided by the State or local revenue agency to the IRS with little time remaining for assessments to be made at the Federal level. The Administration therefore proposes an additional exception to the general three-year statute of limitations for assessment of Federal tax liability resulting from adjustments to State or local tax liability. The statute of limitations would be extended to the greater of: (1) one year from the date the taxpayer first files an amended tax return with the IRS reflecting adjustments

to the State or local tax return; or (2) two years from the date the IRS first receives information from the State or local revenue agency under an information sharing agreement in place between the IRS and a State or local revenue agency. The statute of limitations would be extended only with respect to the increase in Federal tax attributable to the State or local tax adjustment. The statute of limitations would not be further extended if the taxpayer files additional amended returns for the same tax periods as the initial amended return or the IRS receives additional information from the State or local revenue agency under an information sharing agreement. The proposal would be effective for returns required to be filed after December 31, 2012.

**Improve investigative disclosure statute.**—Generally, tax return information is confidential, unless a specific exception in the Internal Revenue Code applies. In the case of tax administration, the Internal Revenue Code permits the Department of the Treasury and IRS officers and employees to disclose return information to the extent necessary to obtain information not otherwise reasonably available, in the course of an audit or investigation, as prescribed by regulation. Department of the Treasury regulations effective since 2003 state that the term “necessary” in this context does not mean essential or indispensable, but rather appropriate and helpful in obtaining the information sought. Determining if an investigative disclosure is “necessary” is inherently factual, leading to inconsistent opinions by the courts. Eliminating this uncertainty from the statute would facilitate investigations by IRS officers and employees, while setting forth clear guidance for taxpayers, thus enhancing compliance with the Internal Revenue Code. The Administration proposes to clarify the taxpayer privacy law by stating that it does not prohibit Department of the Treasury and IRS officers and employees from identifying themselves, their organizational affiliation, and the nature and subject of an investigation, when contacting third parties in connection with a civil or criminal tax investigation.

**Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code.**—Taxpayers can prepare their returns electronically (by meeting with a tax return preparer or using tax preparation software) but may file their return on paper by printing it out and mailing it to the IRS. Electronically filed tax returns are processed more efficiently and more accurately than paper tax returns. However, when tax returns are filed on paper—even if that paper return was prepared electronically—the IRS must manually enter the information contained on the return into the IRS’s systems. The Administration proposes to require all taxpayers who prepare their tax returns electronically but print their returns and file them on paper to print their returns with a 2-D bar code that can be scanned by the IRS to convert the paper return into an electronic format. The proposal would be effective for tax returns filed after December 31, 2012.

**Allow the IRS to absorb credit and debit card processing fees for certain tax payments.**—Taxpayers

may make credit or debit card payments by phone through IRS-designated third party service providers, who charge taxpayers a convenience fee for processing the payment over and above the taxes due. Under current law, if the IRS were to accept credit or debit card payments directly from taxpayers, the IRS would be prohibited from absorbing credit and debit card processing fees. The Administration recognizes that it is inefficient for both the IRS and taxpayers to require credit and debit card payments to be made through a third party service provider, and that charging an additional convenience fee increases taxpayers’ costs. The proposal would permit the IRS to accept credit and debit card payments directly from taxpayers and to absorb the credit and debit card processing fees, but only in situations authorized by regulations.

**Improve and make permanent the provision authorizing the IRS to disclose certain return information to certain prison officials.**—Under prior law, the IRS was authorized to disclose to the head of the Federal Bureau of Prisons and the head of any State agency charged with the responsibility for administering prisons any return information with respect to individuals incarcerated in Federal or State prison whom the Secretary of the Treasury determined may have filed or facilitated the filing of a false return. This authorization expired on December 31, 2011. The Administration proposes to reinstate the provision with certain changes to increase the provision’s efficiency and effectiveness (including making the authorization for disclosure permanent and permitting disclosure directly to officers and employees of the Federal or State prison agency).

**Extend IRS math error authority in certain circumstances.**—The IRS may correct certain mathematical or clerical errors made on tax returns to reflect the taxpayer’s correct tax liability (this authority is generally referred to as “math error authority”). The Internal Revenue Code specifically identifies a list of circumstances where the IRS has math error authority. The Administration proposes adding the following two items to this list of circumstances: (1) when there is a lifetime limit on (a) the total amount of a credit or deduction that may be claimed or (b) the total number of years that a credit or deduction may be claimed; and (2) when the taxpayer claimed the EITC during a period in which the taxpayer was previously prohibited by the IRS from claiming the EITC because, in a prior year, the taxpayer’s EITC claim was due to fraud or reckless or intentional disregard of the rules and regulations. The proposal would increase the efficiency of tax administration by allowing the IRS to disallow clearly erroneous claims, reduce the need for audits, and promote fairness by limiting such claims to taxpayers who are entitled to them. The proposal would be effective for taxable years beginning after December 31, 2012.

**Impose a penalty on failure to comply with electronic filing requirements.**—Certain corporations and tax-exempt organizations (including certain charitable trusts and private foundations) are required to file their returns electronically. Although there are additions to tax for the failure to file returns, there is no specific pen-

alty in the Internal Revenue Code for a failure to comply with a requirement to file electronically. Electronic filing increases efficiency of tax administration because the provision of tax return information in an electronic form enables the IRS to focus audit activities where they can have the greatest impact. This also assists taxpayers where the need for audit is reduced. The Administration is proposing an assessable penalty for a failure to comply with a requirement of electronic (or other machine-readable) format for a return that is filed. The amount of the penalty would be \$25,000 for a corporation or \$5,000 for a tax-exempt organization. The proposal would be effective for returns required to be electronically filed after December 31, 2012.

### Simplify the Tax System

**Simplify the rules for claiming the EITC for workers without qualifying children.**—The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, that is reduced by the product of a specified phaseout rate and the amount of earned income or AGI, if greater, in excess of a specified income threshold. Different credit schedules apply for taxpayers based on the number of qualifying children the taxpayer claims. In general, taxpayers with low wages who do not have a qualifying child may be eligible to claim the small EITC for workers without qualifying children. However, if the taxpayer resides with a qualifying child whom the taxpayer does not claim (perhaps because that child is claimed by another individual within the household), the taxpayer is not eligible for any EITC. The Administration proposes to allow otherwise eligible taxpayers residing with qualifying children to claim the EITC for workers without qualifying children. This proposal would be effective for tax years beginning after December 31, 2012.

**Eliminate minimum required distribution (MRD) requirements for IRA/plan balances of \$75,000 or less.**—The MRD rules generally require that participants in tax-favored retirement plans and owners of IRAs commence distributions shortly after attaining age 70-1/2 and that these retirement assets be distributed to them (or their spouses or other beneficiaries) over a period based on life expectancy. The penalty for failure to take a minimum required distribution by the applicable deadline is 50 percent of the amount not withdrawn. The Administration proposes to simplify tax compliance for retirees of modest means by exempting an individual from the MRD requirements if the aggregate value of the individual's IRA and tax-favored retirement plan accumulations does not exceed \$75,000 on a measurement date. The MRD requirements would phase in for individuals with aggregate retirement balances between \$75,000 and \$85,000. The initial measurement date for the dollar threshold would be the beginning of the year in which the individual turns 70-1/2 or dies, with additional measurement dates only if the individual is subsequently credited with amounts (other than earnings) that were not previously taken into account. The proposal would be effective for taxpayers attaining age 70-1/2 on or after December 31, 2012.

**Allow all inherited plan and IRA accounts to be rolled over within 60 days.**—Generally, most amounts distributed from qualified plans or IRAs may be rolled over into another IRA or into an eligible retirement plan. However, the movement of assets from a plan or IRA account inherited by a non-spouse beneficiary cannot be accomplished by means of a 60-day rollover. This difference in treatment between plan and IRA accounts inherited by a non-spouse beneficiary and accounts of living participants serves little if any purpose, generates confusion among plan and IRA administrators, and creates a trap for unwary beneficiaries. The Administration proposes to permit rollovers of distributions to all designated beneficiaries of inherited IRA and plan accounts, subject to inherited IRA treatment, under the same rules that apply to other IRA accounts, beginning January 1, 2013.

**Clarify exception to recapture of unrecognized gain on sale of stock to an employee stock ownership plan (ESOP).**—Section 1042 of the Internal Revenue Code allows a taxpayer to elect to defer the recognition of long-term capital gain on the sale of qualified securities to an ESOP if the proceeds are reinvested in replacement property within certain timeframes. The deferred gain is subject to recapture on disposition of the replacement property, with an exception for a disposition by gift. Section 1042 is unclear as to whether recapture applies on the nontaxable transfer of replacement property to a spouse, including pursuant to a divorce, under section 1041. The Administration proposes to amend the recapture rules of section 1042 to provide an exception for transfers under section 1041. The proposal would be effective with respect to transfers made under section 1041 after December 31, 2012.

**Repeal non-qualified preferred stock designation.**—In 1997, a provision was added to the Internal Revenue Code that treats as taxable “boot” the receipt of certain types of preferred stock known as non-qualified preferred stock (NQPS), where NQPS is issued in a corporate organization or reorganization exchange. Since enactment, taxpayers have often exploited the hybrid nature of NQPS, issuing NQPS in transactions that are inconsistent with the purpose of the 1997 provision. The Administration proposes to repeal the NQPS designation, and no longer treat the receipt of such stock as taxable boot. The proposal would be effective for stock issued after December 31, 2012.

**Repeal preferential dividend rule for publicly offered REITs.**—REITs and RICs may claim a deduction for dividends paid. Historically, however, a dividends paid deduction was not available for a “preferential dividend.” A dividend is “preferential” unless it is distributed pro rata to shareholders, with no preference to any share of stock as compared with other shares of the same class, and with no preference to one class compared with another except to the extent the class is entitled to such preference. There are no exceptions for de minimis or accidental violations. The Administration proposes to repeal the preferential dividend rule for publicly offered REITs. The Department of the Treasury would also be given explicit authority to provide for cures of inadvertent violations of



the preferential dividend rule where it continues in effect and where appropriate, to require consistent treatment of shareholders. The proposal would apply to distributions in taxable years beginning after the date of enactment.

**Reform excise tax based on investment income of private foundations.**—Under current law, private foundations that are exempt from Federal income tax are subject to a two-percent excise tax on their net investment income (one-percent if certain requirements are met). The excise tax on private foundations that are not exempt from Federal income tax, such as certain charitable trusts, is equal to the excess of the sum of the excise tax that would have been imposed if the foundation were tax exempt and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. To simplify the tax laws and encourage increased charitable activity, the Administration proposes to replace the two rates of tax on the net investment income of private foundations that are exempt from Federal income tax with a single tax rate of 1.35 percent. The excise tax on private foundations not exempt from Federal income tax would be equal to the excess of the sum of the 1.35-percent excise tax that would have been imposed if the foundation were tax exempt and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. The proposed change would be effective for taxable years beginning after the date of enactment.

**Remove bonding requirements for certain taxpayers subject to Federal excise taxes on distilled spirits, wine, and beer.**—The Administration proposes to exempt from current law bond requirements taxpayers subject to Federal excise taxes on alcoholic beverages (manufacturers, producers, and importers of distilled spirits, wine, and beer) with an expected tax liability for these taxes of not more than \$50,000 in the current year, who had a tax liability for these taxes of not more than \$50,000 in the prior year. The Administration also proposes to change the excise tax filing and payment period for these taxpayers to quarterly rather than semi-monthly. A substantial number of these taxpayers continue to file and pay their taxes semi-monthly even though they are currently eligible for quarterly filing and payment because quarterly filing raises their deferral bond amounts. Eliminating the bond requirement would make quarterly filing less burdensome for these taxpayers and would reduce the burden of processing tax returns and payments for the Alcohol and Tobacco Tax and Trade Bureau. The Administration also proposes to allow taxpayers subject to Federal excise taxes on alcoholic beverages with an expected tax liability for these taxes of not more than \$1,000 in the current year to file and pay their taxes annually. The provision would be effective 90 days after the date of enactment.

**Simplify arbitrage investment restrictions.**—Current law arbitrage investment restrictions imposed on investments of tax-exempt bond proceeds create unnecessary complexity and compliance burdens for State and local governments. These restrictions generally

limit investment returns that exceed the effective interest rate on the tax-exempt bonds. One type of restriction, called “yield restriction,” limits arbitrage earnings in the first instance, and the second type of restriction, called “rebate,” requires repayment of arbitrage earnings to the Federal government at periodic intervals. The two types of arbitrage restrictions are duplicative and overlapping and they address the same tax policy goal to limit arbitrage profit incentives for excess use of tax-exempt bonds. The Administration proposes to simplify the arbitrage investment restrictions on tax-exempt bonds in several respects. First, the Administration proposes to unify the arbitrage restrictions to rely primarily on the rebate requirement and to repeal yield restriction in most circumstances. Second, recognizing that limited arbitrage potential exists if issuers spend bond proceeds fairly promptly, the Administration proposes a streamlined broad three-year prompt spending exception to the arbitrage rebate requirement on tax-exempt bonds. Finally, recognizing the particular compliance burdens for small issuers, the Administration proposes to increase the small issuer exception to the arbitrage rebate requirement from \$5 million to \$10 million, index the size limit for inflation, and remove the general taxing power constraint on small issuer eligibility.

**Simplify single-family housing mortgage bond targeting requirements.**—Current law allows use of tax-exempt private activity bonds to finance qualified mortgages for single-family housing residences, subject to a number of targeting requirements, including, among others: (1) a mortgagor income limitation (generally not more than 115 percent of applicable median family income, increased to 140 percent of such income for certain targeted areas, and also increased for certain high-cost areas); (2) a purchase price limitation (generally not more than 90 percent of average area purchase prices, increased to 110 percent in targeted areas); (3) a refinancing limitation (generally only new mortgages for first-time homebuyers are permitted); and (4) a targeted area availability requirement. The Administration proposes to simplify the targeting requirements for tax-exempt qualified mortgage bonds by repealing the purchase price limitation and the refinancing limitation. This proposal would be effective for bonds issued after the date of enactment.

**Streamline private business limits on governmental bonds.**—Tax-exempt bonds issued by State and local governments are treated as governmental bonds if the issuer limits private business use and other private involvement sufficiently to avoid treatment as “private activity bonds.” Bonds generally are classified as private activity bonds under a two-part test if more than 10 percent of the bond proceeds are both: (1) used for private business use; and (2) payable or secured from property or payments derived from private business use. A subsidiary restriction further reduces the private business limits on governmental bonds to 5 percent in the case of private business use that is unrelated or disproportionate to governmental use. This unrelated or disproportionate use test introduces undue complexity associated with factual determinations of relatedness, a narrow dis-



qualification trigger, and attendant compliance burdens for State and local governments. The general 10-percent private business limit represents a sufficient and workable boundary for private involvement for governmental bonds. The Administration proposes to streamline the private business limits on governmental bonds by repealing the 5 percent unrelated or disproportionate private business limit. This proposal would be effective for bonds issued after the date of enactment.

### User Fees

**Reform inland waterways funding.**—The Administration proposes to reform the laws governing the Inland Waterways Trust Fund, including increasing the revenue paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this trust fund. The additional revenue will enable a more robust level of funding for safe, reliable, highly cost-effective, and environmentally sustainable waterways, and contribute to economic growth. In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks and dams, and other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs.

**Increase fees for Migratory Bird Hunting and Conservation Stamps.**—Federal Migratory Bird Hunting and Conservation Stamps, commonly known as “Duck Stamps,” were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps (\$15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas. The land and water interest located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 20 years. The Administration proposes to increase these fees to \$25 per stamp per year, effective beginning in 2013.

**Establish a mandatory surcharge for air traffic services.**—All flights that use controlled air space require a similar level of air traffic services. However, commercial and general aviation can pay very different aviation fees for those same air traffic services. To more equitably share the cost of air traffic services across the aviation user community, the Administration proposes to establish a new surcharge for air traffic services of \$100 per flight. Military aircraft, public aircraft, piston aircraft, air ambulances, aircraft operating outside of controlled airspace, and Canada-to-Canada flights would be exempted. The surcharge would be effective for flights beginning after September 30, 2012.

**Reauthorize special assessment on domestic nuclear utilities.**—The Administration proposes to reauthorize the special assessment on domestic nuclear utilities, for deposit in the Uranium Enrichment Decontamination and Decommissioning Fund. Established in 1992, the Fund pays, subject to appropriations, the decontamination and decommissioning costs of the Department of Energy’s gaseous diffusion plants in Tennessee, Ohio, and Kentucky. Additional resources, from the proposed special assessment, are required due to higher-than-expected cleanup costs.

### Trade Initiative

**Establish Reconstruction Opportunity Zones (ROZs).**—In 2009, the President announced his intention to establish ROZs in Afghanistan and the border regions of Pakistan as part of the Administration’s broader counterterrorism strategy.

### Other Initiatives

**Increase employee contributions to civil service retirement (CSRS) and the Federal employee retirement system (FERS).**—The Administration proposes to increase civilian employee contributions to CSRS and FERS by 0.4 percent of pay per year over three years, beginning in 2013, with no change to employee benefits.

**Authorize the Bureau of Engraving and Printing (BEP) to conduct a coupon program to distribute electronic currency readers.**—The BEP will be incorporating features into the next redesign of currency to provide meaningful access for the blind and visually impaired. While research continues on the best method to deliver this outcome, the BEP plans to conduct a program distributing electronic currency readers as an interim measure for providing access. The agency currently has authority to conduct a program loaning the readers, but has determined that a coupon program is a more efficient use of resources. The BEP seeks legislative authority from Congress to conduct a coupon program to distribute electronic currency readers.

**Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state residents.**—Under current law, Federal tax refunds may be offset to collect delinquent State income tax obligations, but only if the delinquent taxpayer resides in the State collecting the tax. The Administration proposes to allow Federal tax refunds to be offset to collect delinquent State tax obligations regardless of where the debtor resides. The proposal would be effective on the date of enactment.

**Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy.**—Synchronization of business lists among the Bureau of Economic Analysis (BEA), the Bureau of Labor Statistics (BLS), and the Bureau of the Census (Census Bureau) would significantly improve the consistency and quality of sensitive economic statistics including productivity, payroll, em-

ployment, and average hourly earnings. The availability of accurate economic statistics is crucial to policy makers. Current law authorizes IRS disclosure of certain FTI for governmental statistical use. Business FTI may be disclosed to officers and employees of the Census Bureau for all businesses. Similarly, business FTI may be disclosed to BEA officers and employees, but only for corporate businesses. Currently, BLS is not authorized to receive FTI. The Census Bureau's Business Register is constructed using both FTI and non-tax business data derived from the Economic Census and current economic surveys, so that under current law it is not possible for the Census Bureau to share data with BEA and BLS in any meaningful way, making synchronizing of their business lists impossible. In addition, given the growth of non-corporate businesses, especially in the service sector, the current limitation on BEA's access to corporate FTI impedes the measurement of income and international transactions in the National Accounts. The Administration proposes to give officers and employees of BEA and BLS access to certain FTI of corporate and non-corporate businesses. Additionally, for the purpose of synchronizing BLS and Census Bureau business lists, the proposal would permit employees of State agencies to receive certain business FTI from BLS. No BEA, BLS, or State agency contractor would have access to FTI. Additionally, the Census Bureau, BEA, BLS, and the State agencies would be subject to the confidentiality safeguard procedures in the Confidential Information Protection and Statistical Efficiency Act (CIPSEA), as well as taxpayer privacy law and related safeguards and penalties. The proposal would be effective upon enactment.

***Eliminate certain reviews conducted by the U.S. Treasury Inspector General for Tax Administration (TIGTA).***—Under current law, TIGTA conducts reviews to comply with reporting requirements. The Administration proposes to eliminate TIGTA's obligation to report infor-

mation regarding any administrative or civil actions related to Fair Tax Collection Practices violations in one of TIGTA's Semiannual Reports, review and certify annually that the IRS is complying with the requirements of section 6103(e)(8) regarding information on joint filers, and annually report on the IRS's compliance with sections 7521(b)(2) and (c) requiring IRS employees to stop a taxpayer interview whenever a taxpayer requests to consult with a representative and to obtain their immediate supervisor's approval to contact the taxpayer instead of the representative if the representative has unreasonably delayed the completion of an examination or investigation. The proposal would revise the annual reporting requirement for all remaining provisions in the IRS Restructuring and Reform Act of 1998 (Public Law 105-206) to a biennial reporting requirement. The proposal would be effective after December 31, 2012.

***Modify indexing to prevent deflationary adjustments.***—Many parameters of the tax system – including the size of personal exemptions and standard deductions, the width of income tax rate brackets, the amount of other deductions and credits, and the maximum amount of various saving and retirement deductions – may be adjusted annually for the effects of inflation, based on annual changes in the Consumer Price Index. Under current law, if price levels decline, most (but not all) of the inflation adjustment provisions would permit tax parameters to become smaller, so long as they do not decline to less than their base period values. The Administration proposes to modify inflation adjustment provisions to prevent the size of all indexed tax parameters from decreasing from the previous year's levels if the underlying price index falls. Subsequent inflation-related increases would be based on the highest previous level of the price index relevant for adjusting the particular tax parameter. The proposal would be effective as of the date of enactment.

## PROGRAM INTEGRITY INITIATIVES

***Increase levy authority for payments to Medicare providers with delinquent tax debt.***—The Administration 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 proposal would allow Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes, effective for payments made after the date of enactment.

***Implement a program integrity statutory cap adjustment for the IRS.***—The Administration proposes an

adjustment to the discretionary spending limits for IRS tax enforcement, compliance, and related activities, as established in the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), Public Law 99-177, and amended by the Budget Control Act of 2011 (Public Law 112-25). Similar cap adjustments are already included in the BBEDCA for Continuing Disability Reviews and Determinations at the Social Security Administration and Health Care Fraud and Abuse Control at the Department of Health and Human Services. In general, such cap adjustments help protect increases above a base level for activities that generate benefits that exceed programmatic costs. The proposed 2013 cap adjustment for the IRS will fund roughly \$350 million in new revenue-producing initiatives above current levels of enforcement and compliance activity. Beyond 2013, the Administration proposes to provide a further increase of about \$350 million in additional new tax enforcement initiatives each year from 2014 through 2017 and to sustain all of the new initiatives plus inflationary costs through 2022. The total cost

of starting and sustaining the new initiatives above current levels of enforcement and compliance activity would be roughly \$17 billion over the budget window, and is estimated to generate an additional \$44 billion in revenue over that same period. These resources will help the IRS continue to work on closing the tax gap, defined as the dif-

ference between taxes owed and those paid on time and estimated at \$450 billion in 2006. Enforcement funds provided through the 2013 cap adjustment will continue to target international tax compliance, as well as implement information reporting authorities with the aim of making the IRS a more efficient and effective tax administrator.

Table 15-3. EFFECT OF PROPOSALS

(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
<b>Temporary tax relief to create jobs and jumpstart growth:</b>													
Extend temporary reduction in the Social Security payroll tax rate for employees and self-employed individuals .....	-63,153	-31,159	.....	72	-41	-17	-8	-2	-2	-1	.....	-31,145	-31,158
Extend 100-percent first-year depreciation deduction for certain property .....	-35,046	-14,830	13,709	10,284	7,293	5,376	3,503	2,246	1,377	1,029	935	21,832	30,922
Provide a temporary 10-percent tax credit for new jobs and wage increases <sup>1</sup> .....	-14,227	-12,601	-1,054	-1,162	-1,048	-881	-461	-458	-389	-230	-164	-16,746	-18,448
Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project .....	-170	-779	-1,309	-1,215	-418	-26	67	111	57	21	7	-3,747	-3,484
Provide tax credit for energy-efficient commercial building property expenditures in place of existing tax deduction .....	.....	-400	-517	-367	-232	-115	-32	2	2	2	2	-1,631	-1,655
Reform and extend Build America Bonds <sup>1</sup> .....	-17	-55	-95	-118	-119	-118	-119	-119	-119	-119	-120	-505	-1,101
Total, temporary tax relief to create jobs and jumpstart growth .....	-112,613	-59,824	10,734	7,494	5,435	4,219	2,950	1,780	926	702	660	-31,942	-24,924
<b>Tax cuts for families and individuals:</b>													
Extend AOTC <sup>1</sup> .....	.....	-672	-12,673	-12,962	-14,066	-14,154	-15,217	-15,610	-16,588	-17,070	-18,358	-54,527	-137,370
Provide for automatic enrollment in IRAs, including a small employer tax credit, and doubling of the tax credit for small employer plan start-up costs <sup>1</sup> .....	.....	.....	-733	-1,203	-1,285	-1,383	-1,555	-1,784	-2,024	-2,333	-2,722	-4,604	-15,022
Expand EITC for larger families <sup>1</sup> .....	.....	-73	-1,436	-1,469	-1,487	-1,521	-1,545	-1,575	-1,605	-1,635	-1,663	-5,986	-14,009
Expand child and dependent care tax credit <sup>1</sup> .....	.....	-310	-1,088	-1,098	-1,111	-1,114	-1,117	-1,112	-1,099	-1,090	-1,078	-4,721	-10,217
Extend exclusion from income for cancellation of certain home mortgage debt .....	.....	-1,153	-1,261	-292	.....	.....	.....	.....	.....	.....	.....	-2,706	-2,706
Provide exclusion from income for student loan forgiveness for students after 25 years of income-based or income-contingent repayment .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the IHS Health Professions Programs .....	.....	.....	-2	-2	-2	-2	-2	-2	-2	-3	-3	-8	-20
Total, tax cuts for families and individuals .....	.....	-2,208	-17,193	-17,026	-17,951	-18,174	-19,436	-20,083	-21,318	-22,131	-23,824	-72,552	-179,344
<b>Incentives for expanding manufacturing and insourcing jobs in America:</b>													
Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas .....	.....	-8	-8	-8	-8	-8	-9	-10	-10	-10	-11	-40	-90
Provide new Manufacturing Communities tax credit .....	.....	-19	-103	-242	-394	-517	-617	-702	-732	-644	-456	-1,275	-4,426
Target the domestic production activities deduction to domestic manufacturing activities and double the deduction for advanced manufacturing activities .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Enhance and make permanent the R&E tax credit .....	-4,012	-7,048	-7,834	-8,677	-9,553	-10,441	-11,314	-12,157	-12,991	-13,832	-14,688	-43,553	-108,535
Provide a tax credit for the production of advanced technology vehicles .....	-7	-53	-163	-257	-413	-610	-461	-434	-166	282	280	-1,496	-1,995
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles .....	.....	-44	-227	-261	-310	-371	-389	-177	42	25	15	-1,213	-1,697
Extend and modify certain energy incentives <sup>1</sup> .....	-460	-625	-1,781	-700	-282	-109	-20	-58	-86	-100	-109	-3,497	-3,870
Total, incentives for expanding manufacturing and insourcing jobs in America .....	-4,479	-7,797	-10,116	-10,145	-10,960	-12,056	-12,810	-13,538	-13,943	-14,279	-14,969	-51,074	-120,613
<b>Tax relief for small business:</b>													
Eliminate capital gains taxation on investments in small business stock .....	.....	.....	.....	.....	.....	-214	-619	-1,018	-1,525	-2,079	-2,536	-214	-7,991
Double the amount of expensed start-up expenditures .....	-76	-322	-316	-313	-311	-310	-307	-302	-299	-297	-296	-1,572	-3,073
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance <sup>1</sup> .....	-512	-1,077	-1,777	-2,168	-1,987	-1,672	-1,409	-1,215	-1,101	-981	-774	-8,681	-14,161
Total, tax relief for small business .....	-588	-1,399	-2,093	-2,481	-2,298	-2,196	-2,335	-2,535	-2,925	-3,357	-3,606	-10,467	-25,225
<b>Incentives to promote regional growth:</b>													
Extend and modify the NMTC .....	-14	-72	-184	-306	-397	-465	-513	-528	-466	-310	-129	-1,424	-3,370



**Table 15-3. EFFECT OF PROPOSALS—Continued**  
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
Designate Growth Zones <sup>1</sup> .....			-577	-1,048	-990	-934	-886	-119	518	477	409	-3,549	-3,150
Restructure assistance to New York City, provide tax incentives for transportation infrastructure .....		-200	-200	-200	-200	-200	-200	-200	-200	-200	-200	-1,000	-2,000
Modify tax-exempt bonds for Indian tribal governments .....		-2	-4	-8	-11	-15	-19	-24	-27	-31	-35	-40	-176
Allow current refundings of State and local governmental bonds <sup>3</sup> .....													
Reform and expand the LIHTC .....	-1	-5	-17	-35	-55	-76	-98	-119	-142	-165	-191	-188	-903
Total, incentives to promote regional growth .....	-15	-279	-982	-1,597	-1,653	-1,690	-1,716	-990	-317	-229	-146	-6,201	-9,599
<b>Continue certain expiring provisions through calendar year 2013<sup>1, 2</sup> .....</b>	<b>-5,414</b>	<b>-13,723</b>	<b>-9,295</b>	<b>-1,066</b>	<b>-541</b>	<b>-259</b>	<b>-209</b>	<b>-238</b>	<b>-278</b>	<b>-354</b>	<b>-394</b>	<b>-24,884</b>	<b>-26,357</b>
<b>Upper-income tax provisions:</b>													
Sunset the Bush tax cuts for those with income in excess of \$250,000 (\$200,000 if single):													
Reinstate the limitation on itemized deductions for upper-income taxpayers .....		4,374	9,144	10,038	11,066	12,118	13,149	14,171	15,207	16,285	17,433	46,740	122,985
Reinstate the personal exemption phaseout for upper-income taxpayers .....		1,510	3,173	3,450	3,745	4,083	4,429	4,793	5,169	5,574	6,016	15,961	41,942
Reinstate the 36-percent and 39.6-percent rates for upper-income taxpayers .....		23,101	32,492	35,507	39,133	42,744	46,268	49,839	53,509	57,394	61,567	172,977	441,554
Tax qualified dividends as ordinary income for upper-income taxpayers .....		21,537	10,483	15,624	20,183	22,269	22,529	22,776	23,085	23,615	24,314	90,096	206,415
Tax net long-term capital gains at a 20-percent rate for upper-income taxpayers .....		5,811	-4,226	-1,718	2,286	4,681	5,141	5,484	5,822	6,165	6,520	6,834	35,966
Subtotal, sunset the Bush tax cuts for those with income in excess of \$250,000 (\$200,000 if single) <sup>4</sup> .....		56,333	51,066	62,901	76,413	85,895	91,516	97,063	102,792	109,033	115,850	332,608	848,862
Reduce the value of certain tax expenditures .....		27,096	43,935	47,457	51,764	57,015	62,263	66,736	71,195	75,899	80,837	227,267	584,197
Total, upper-income tax provisions .....		83,429	95,001	110,358	128,177	142,910	153,779	163,799	173,987	184,932	196,687	559,875	1,433,059
<b>Modify estate and gift tax provisions:</b>													
Restore the estate, gift and GST tax parameters in effect in 2009 .....	103	150	8,552	9,851	10,791	11,828	12,970	14,191	15,458	16,856	18,150	41,172	118,797
Require consistency in value for transfer and income tax purposes .....		149	165	172	182	192	204	217	230	244	259	860	2,014
Modify rules on valuation discounts .....		766	1,422	1,516	1,626	1,748	1,889	2,038	2,189	2,354	2,531	7,078	18,079
Require a minimum term for GRATs .....		40	85	144	206	273	347	426	509	599	705	748	3,334
Limit duration of GST tax exemption .....													
Coordinate certain income and transfer tax rules applicable to grantor trusts .....		22	31	39	50	65	82	105	133	169	214	207	910
Extend the lien on estate tax deferrals provided under section 6166 .....	2	5	9	13	16	17	18	19	20	21	22	60	160
Total, modify estate and gift tax provisions .....	105	1,132	10,264	11,735	12,871	14,123	15,510	16,996	18,539	20,243	21,881	50,125	143,294
<b>Reform U.S. international tax system:</b>													
Defer deduction of interest expense related to deferred income of foreign subsidiaries .....		3,487	5,926	6,156	6,420	6,693	3,436	1,215	1,258	1,306	1,356	28,682	37,253
Determine the foreign tax credit on a pooling basis .....		3,211	5,457	5,668	5,911	6,163	6,403	6,630	6,865	7,128	7,399	26,410	60,835
Tax currently excess returns associated with transfers of intangibles offshore .....		1,498	2,653	2,621	2,550	2,460	2,375	2,290	2,231	2,178	2,117	11,782	22,973
Limit shifting of income through intangible property transfers .....		28	62	88	115	143	172	203	235	269	308	436	1,623
Disallow the deduction for non-taxed reinsurance premiums paid to affiliates .....		111	211	229	241	248	260	274	274	290	311	1,040	2,449
Limit earnings stripping by expatriated entities .....		222	382	401	421	442	464	487	512	537	564	1,868	4,432
Modify tax rules for dual capacity taxpayers .....		530	912	965	1,023	1,081	1,139	1,192	1,245	1,301	1,336	4,511	10,724
Tax gain from the sale of a partnership interest on look-through basis .....		158	218	229	240	252	265	278	292	307	322	1,097	2,561
Prevent use of leveraged distributions from related foreign corporations to avoid dividend treatment .....		175	298	310	323	337	350	362	375	389	404	1,443	3,323
Extend section 338(h)(16) to certain asset acquisitions .....		60	100	100	100	100	100	100	100	100	100	460	960
Remove foreign taxes from a section 902 corporation's foreign tax pool when earnings are eliminated .....		10	20	27	36	46	50	50	50	50	50	139	389
Total, reform U.S. international tax system .....		9,490	16,239	16,794	17,380	17,965	15,014	13,081	13,437	13,855	14,267	77,868	147,522

**Table 15-3. EFFECT OF PROPOSALS—Continued**  
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
<b>Reform treatment of financial and insurance industry institutions and products:</b>													
Impose a financial crisis responsibility fee .....			3,252	6,462	6,506	6,784	7,058	7,317	7,652	7,982	8,329	23,004	61,342
Require accrual of income on forward sale of corporate stock .....		4	11	18	26	34	38	40	42	44	46	93	303
Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities .....	37	152	240	254	270	286	303	321	341	361	383	1,202	2,911
Modify the definition of "control" for purposes of section 249 .....	3	11	17	17	18	19	20	21	22	23	24	82	192
Modify rules that apply to sales of life insurance contracts .....		14	38	46	58	70	84	99	115	133	154	226	811
Modify proration rules for life insurance company general and separate accounts .....		461	788	776	808	840	846	840	805	788	754	3,673	7,706
Expand pro rata interest expense disallowance for COLI .....		21	67	173	260	411	620	856	1,216	1,628	2,058	932	7,310
Total, reform treatment of financial and insurance industry institutions and products .....	40	663	4,413	7,746	7,946	8,444	8,969	9,494	10,193	10,959	11,748	29,212	80,575
<b>Eliminate fossil fuel preferences:</b>													
Eliminate oil and gas preferences:													
Repeal enhanced oil recovery credit <sup>3</sup> .....													
Repeal credit for oil and gas produced from marginal wells <sup>3</sup> .....													
Repeal expensing of intangible drilling costs .....		3,490	2,398	1,867	1,760	1,453	1,012	709	508	388	317	10,968	13,902
Repeal deduction for tertiary injectants .....		7	11	11	11	11	10	10	10	10	9	51	100
Repeal exception to passive loss limitations for working interests in oil and natural gas properties .....		9	11	10	9	8	8	7	7	7	6	47	82
Repeal percentage depletion for oil and natural gas wells .....		612	1,046	1,083	1,122	1,166	1,206	1,242	1,274	1,329	1,385	5,029	11,465
Increase geological and geophysical amortization period for independent producers to seven years .....		61	225	339	310	226	146	68	15	3	7	1,161	1,400
Subtotal, eliminate oil and gas preferences .....		4,179	3,691	3,310	3,212	2,864	2,382	2,036	1,814	1,737	1,724	17,256	26,949
Eliminate coal preferences:													
Repeal expensing of exploration and development costs .....		26	44	46	48	50	50	48	46	43	39	214	440
Repeal percentage depletion for hard mineral fossil fuels .....		185	177	172	168	168	170	174	175	176	179	870	1,744
Repeal capital gains treatment for royalties .....		11	25	31	38	43	47	51	55	58	63	148	422
Subtotal, eliminate coal preferences .....		222	246	249	254	261	267	273	276	277	281	1,232	2,606
Total, eliminate fossil fuel tax preferences <sup>5</sup> .....		4,401	3,937	3,559	3,466	3,125	2,649	2,309	2,090	2,014	2,005	18,488	29,555
<b>Other revenue changes and loophole closers:</b>													
Levy a fee on the production of hardrock minerals to restore abandoned mines .....			200	200	200	200	200	200	200	200	200	800	1,800
Increase Oil Spill Liability Trust Fund financing rate by one cent and update the law to include other sources of crudes <sup>2</sup> .....		55	72	72	72	73	75	74	75	75	74	344	717
Reinstate Superfund taxes <sup>2</sup> .....		1,445	2,086	2,036	1,955	2,113	2,193	2,247	2,265	2,281	2,337	9,635	20,958
Make UI surtax permanent <sup>2</sup> .....		974	1,363	1,386	1,410	1,435	1,454	1,466	1,475	1,486	1,487	6,568	13,936
Provide short-term tax relief to employers and expand FUTA base <sup>2</sup> .....		-2,990	-3,634	7,856	9,862	8,941	8,752	5,472	4,407	5,043	4,134	20,035	47,843
Expand STC unemployment program <sup>2</sup> .....		46	42	-39	-58	-102	-179	-233	-37	37	-68	-111	-591
Expand Federal unemployment benefits and invest in program integrity <sup>2</sup> .....	-2	-6	-6	-7	-10	-16	-421	-130	-32	-51	-50	-45	-729
Repeal LIFO method of accounting for inventories .....			5,535	8,834	8,399	8,376	8,782	8,738	8,338	8,421	8,359	31,144	73,782
Repeal lower-of-cost-or-market inventory accounting method .....			930	5,638	2,315	1,520	1,347	305	320	334	350	10,403	13,059
Eliminate special depreciation rules for purchases of general aviation passenger aircraft .....		54	174	268	304	357	376	278	162	119	114	1,157	2,206
Repeal gain limitation for dividends received in reorganization exchanges .....		48	81	84	86	89	92	94	97	100	103	388	874
Tax carried (profits) interests as ordinary income .....		1,287	1,935	1,918	1,703	1,426	1,165	1,106	1,171	1,017	768	8,269	13,496

**Table 15-3. EFFECT OF PROPOSALS—Continued**  
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
Expand the definition of built-in loss for purposes of partnership loss transfers .....			6	6	7	7	7	7	8	8	8	26	64
Extend partnership basis limitation rules to nondeductible expenditures .....		6	67	74	83	89	94	97	100	105	111	319	826
Limit the importation of losses under section 267(d) ...		5	63	69	77	82	87	90	94	97	103	296	767
Deny deduction for punitive damages .....			24	35	35	36	36	37	37	39	40	130	319
Eliminate the deduction for contributions of conservation easements on golf courses .....	3	37	51	53	55	59	61	64	68	71	74	255	593
Total, other revenue changes and loophole closers ..	1	961	8,989	28,483	26,495	24,685	24,121	19,912	18,748	19,382	18,144	89,613	189,920
<b>Reduce the tax gap and make reforms:</b>													
Expand information reporting:													
Require information reporting for private separate accounts of life insurance companies .....			1	1	1	1	1	1	1	1	2	4	10
Require a certified TIN from contractors and allow certain withholding .....		28	65	110	151	158	165	172	180	188	196	512	1,413
Subtotal, expand information reporting .....		28	66	111	152	159	166	173	181	189	198	516	1,423
Improve compliance by businesses:													
Require greater electronic filing of returns .....													
Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports ...													
Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes .....		4	5	6	6	6	7	7	8	8	8	27	65
Increase certainty with respect to worker classification .....	6	15	247	621	782	872	966	1,062	1,162	1,267	1,378	2,537	8,372
Repeal special estimated tax payment provision for certain insurance companies .....													
Eliminate special rules modifying the amount of estimated tax payments by corporations .....	-300	300	-54,700	5,600	46,350	2,750		-5,600	5,600			300	300
Subtotal, improve compliance by businesses .....	-294	319	-54,448	6,227	47,138	3,628	973	-4,531	6,770	1,275	1,386	2,864	8,737
Strengthen tax administration:													
Streamline audit and adjustment procedures for large partnerships .....		50	221	105	128	161	192	210	214	216	217	665	1,714
Revise offer-in-compromise application rules .....		2	2	2	2	2	2	2	2	2	2	10	20
Expand IRS access to information in the NDNH for tax administration purposes .....													
Make repeated willful failure to file a tax return a felony .....					1	1	1	1	2	2	2	2	10
Facilitate tax compliance with local jurisdictions .....				1	1	1	1	1	1	1	1	3	8
Extend statute of limitations where State adjustment affects Federal tax liability .....					1	4	4	4	4	4	4	5	25
Improve investigative disclosure statute .....					1	1	1	1	2	2	2	2	10
Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code .....													
Allow the IRS to absorb credit and debit card processing fees for certain tax payments .....		1	2	2	2	2	2	2	2	2	2	9	19
Improve and make permanent the provision authorizing the IRS to disclose certain return information to certain prison officials .....													
Extend IRS math error authority in certain circumstances <sup>1</sup> .....		7	17	17	16	17	18	19	20	20	22	74	173
Impose a penalty on failure to comply with electronic filing requirements .....					1	1	1	1	2	2	2	2	10
Subtotal, strengthen tax administration .....		60	242	127	153	190	222	241	249	251	254	772	1,989
Total, reduce the tax gap and make reforms ...	-294	407	-54,140	6,465	47,443	3,977	1,361	-4,117	7,200	1,715	1,838	4,152	12,149
<b>Simplify the tax system:</b>													
Simplify the rules for claiming the EITC for workers without qualifying children <sup>1</sup> .....		-41	-553	-563	-572	-582	-589	-598	-608	-619	-630	-2,311	-5,355
Eliminate MRD requirements for IRA/plan balances of \$75,000 or less .....		-4	-8	-12	-18	-25	-34	-44	-56	-70	-84	-67	-355

**Table 15-3. EFFECT OF PROPOSALS—Continued**  
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
Allow all inherited plan and IRA accounts to be rolled over within 60 days .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Clarify exception to recapture of unrecognized gain on sale of stock to an ESOP .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Repeal non-qualified preferred stock designation .....	.....	30	49	49	48	45	42	37	33	29	26	221	388
Repeal preferential dividend rule for publicly offered REITs .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Reform excise tax based on investment income of private foundations .....	.....	-4	-4	-5	-5	-5	-5	-6	-6	-7	-7	-23	-54
Remove bonding requirements for certain taxpayers subject to Federal excise taxes on distilled spirits, wine, and beer .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Simplify arbitrage investment restrictions .....	.....	-2	-10	-18	-28	-38	-46	-58	-68	-76	-87	-96	-431
Simplify single-family housing mortgage bond targeting requirements .....	.....	.....	.....	.....	-1	-1	-1	-3	-3	-3	-3	-2	-15
Streamline private business limits on governmental bonds .....	.....	-1	-4	-5	-8	-9	-12	-15	-16	-19	-21	-27	-110
Total, simplify the tax system .....	.....	-22	-530	-554	-584	-615	-645	-687	-724	-765	-806	-2,305	-5,932
<b>User fees:</b>													
Reform inland waterways funding <sup>2</sup> .....	.....	82	113	113	113	113	113	113	113	113	114	534	1,100
Increase fees for Migratory Bird Hunting and Conservation Stamps .....	.....	14	14	14	14	14	14	14	14	14	14	70	140
Establish a mandatory surcharge for air traffic services <sup>2</sup> .....	.....	647	668	692	719	744	767	783	798	813	829	3,470	7,460
Reauthorize special assessment on domestic nuclear utilities .....	.....	200	204	208	212	217	221	226	231	235	240	1,041	2,194
Total, user fees .....	.....	943	999	1,027	1,058	1,088	1,115	1,136	1,156	1,175	1,197	5,115	10,894
<b>Trade initiative:</b>													
Establish ROZs <sup>2</sup> .....	.....	-1	-5	-8	-12	-19	-25	-30	-33	-36	-38	-45	-207
<b>Other initiatives:</b>													
Increase employee contributions to CSRS and FERS .....	.....	899	1,805	2,752	2,840	2,938	3,041	3,140	3,242	3,347	3,452	11,234	27,456
Authorize BEP to conduct a coupon program to distribute electronic currency readers .....	.....	53	12	12	12	13	13	13	14	14	14	102	170
Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state-residents .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Eliminate certain reviews conducted by the U.S. TIGTA .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Modify indexing to prevent deflationary adjustments .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total, other initiatives .....	.....	952	1,817	2,764	2,852	2,951	3,054	3,153	3,256	3,361	3,466	11,336	27,626
<b>Total, effect of proposals .....</b>	<b>-123,257</b>	<b>17,125</b>	<b>58,039</b>	<b>163,548</b>	<b>219,124</b>	<b>188,478</b>	<b>191,346</b>	<b>189,442</b>	<b>209,994</b>	<b>217,187</b>	<b>228,110</b>	<b>646,314</b>	<b>1,682,393</b>

<sup>1</sup> This proposal affects both receipts and outlays. Both effects are shown here. The outlay effects included in these estimates are listed below:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
Provide a temporary 10-percent tax credit for new jobs and wage increases .....	.....	615	.....	.....	.....	.....	.....	.....	.....	.....	.....	615	615
Reform and extend Build America Bonds .....	105	607	1,610	2,854	4,185	5,614	7,127	8,703	10,331	12,019	13,973	14,870	67,023
Extend AOTC .....	.....	.....	5,940	6,018	6,477	6,494	6,950	7,041	7,538	7,649	8,210	24,929	62,317
Provide for automatic enrollment in IRAs, including a small employer tax credit, and doubling of the tax credit for small employer plan start-up costs .....	.....	.....	140	218	220	225	231	234	238	244	247	803	1,997
Expand EITC for larger families .....	.....	71	1,429	1,462	1,481	1,515	1,539	1,569	1,599	1,629	1,657	5,958	13,951
Expand child and dependent care tax credit .....	.....	.....	314	324	337	346	359	369	375	384	391	1,321	3,199
Extend and modify certain energy incentives .....	1,147	178	706	209	95	65	.....	.....	.....	.....	.....	1,253	1,253
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance .....	34	73	120	147	134	113	95	82	74	67	53	587	958
Designate Growth Zones .....	.....	.....	23	24	27	27	29	.....	.....	.....	.....	101	130
Continue certain expiring provisions through calendar year 2013 .....	97	455	595	.....	.....	.....	.....	.....	.....	.....	.....	1,050	1,050



**Table 15-3. EFFECT OF PROPOSALS—Continued**  
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
Extend IRS math error authority in certain circumstances .....	.....	-4	-9	-9	-9	-9	-10	-10	-11	-11	-12	-40	-94
Simplify the rules for claiming the EITC for workers without qualifying children .....	.....	24	486	495	503	512	518	526	535	545	554	2,020	4,698
Total, outlay effects of receipt proposals .....	1,383	2,019	11,354	11,742	13,450	14,902	16,838	18,514	20,679	22,526	25,073	53,467	157,097

<sup>2</sup> Net of income offsets.

<sup>3</sup> This provision is estimated to have zero receipt effect under the Administration's current economic projections.

<sup>4</sup> The Administration also proposes to restore the estate, gift and GST tax parameters in effect in 2009. The total effect on receipts of allowing the Bush tax cuts to expire for upper-income taxpayers is shown below:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
Sunset the Bush tax cuts for those with income in excess of 250,000 (200,000 if single).....	.....	56,333	51,066	62,901	76,413	85,895	91,516	97,063	102,792	109,033	115,850	332,608	848,862
Restore the estate, gift and GST tax parameters in effect in 2009.....	103	150	8,522	9,851	10,791	11,828	12,970	14,191	15,458	16,856	18,150	41,172	118,797
Total effect on receipts of allowing the Bush tax cuts to expire of upper-income taxpayers .....	103	56,483	59,618	72,752	87,204	97,723	104,486	111,254	118,250	125,889	134,000	373,780	967,659

<sup>5</sup> The Administration also proposes to repeal the domestic manufacturing deduction for oil and gas and other fossil fuel production. The effects of repeal on receipts, which are included in the estimates of the Administration's proposal to target the domestic production activities deduction, are shown below:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
Repeal domestic manufacturing tax deduction for oil and gas production .....	.....	574	986	1,043	1,105	1,169	1,231	1,289	1,346	1,404	1,465	4,877	11,612
Repeal domestic manufacturing tax deduction for coal and other hard mineral fossil fuels .....	.....	13	23	24	26	28	29	30	31	33	34	114	271
Total, effect on receipts of repealing the domestic manufacturing tax deduction for oil and gas and other fossil fuels .....	.....	587	1,009	1,067	1,131	1,197	1,260	1,319	1,377	1,437	1,499	4,991	11,883

**Table 15-4. EFFECT OF PROGRAM INTEGRITY INITIATIVES <sup>1,2</sup>**  
(In millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
<b>Program integrity initiatives:</b>													
Increase levy authority for payments to Medicare providers with delinquent tax debt .....	16	56	66	68	70	72	74	76	77	78	80	332	717
Implement a program integrity statutory cap adjustment for the IRS .....	.....	421	1,123	2,251	3,455	4,694	5,585	6,200	6,483	6,661	6,779	11,944	43,652
Total, program integrity initiatives .....	16	477	1,189	2,319	3,525	4,766	5,659	6,276	6,560	6,739	6,859	12,276	44,369

<sup>1</sup> The receipt effect of a spending initiative.

<sup>2</sup> The sum of adjusted baseline receipts (Table 15-2), the receipt effect of the Administration's proposals (Table 15-3), and these program integrity initiatives equals the estimates of total receipts presented in Tables 15-1 and 15-5.

**Table 15-5. RECEIPTS BY SOURCE**  
(In millions of dollars)

Source	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Individual income taxes:</b>												
Federal funds .....	1,091,473	1,178,790	1,293,749	1,388,648	1,505,513	1,632,600	1,765,884	1,893,793	2,015,168	2,138,956	2,267,410	2,400,909
Legislative proposal, not subject to PAYGO .....	.....	.....	-1,142	1,123	2,251	3,454	4,693	5,583	6,198	6,480	6,657	6,775
Legislative proposal, subject to PAYGO .....	.....	-14,140	66,653	86,544	109,617	126,819	141,612	152,378	162,826	173,798	185,314	197,201
<b>Total, Individual income taxes</b>	<b>1,091,473</b>	<b>1,164,650</b>	<b>1,359,260</b>	<b>1,476,315</b>	<b>1,617,381</b>	<b>1,762,873</b>	<b>1,912,189</b>	<b>2,051,754</b>	<b>2,184,192</b>	<b>2,319,234</b>	<b>2,459,381</b>	<b>2,604,885</b>
<b>Corporation income taxes:</b>												
Federal funds:												
Federal funds .....	181,085	281,230	364,917	458,589	407,370	381,106	443,578	456,860	471,722	469,767	487,683	500,522
Legislative proposal, subject to PAYGO .....	.....	-44,429	-18,032	-30,290	36,494	73,067	28,387	21,377	12,124	22,864	17,679	18,357
Total, Federal funds .....	181,085	236,801	346,885	428,299	443,864	454,173	471,965	478,237	483,846	492,631	505,362	518,879
Trust funds:												
Legislative proposal, subject to PAYGO .....	.....	.....	856	1,296	1,231	1,133	1,273	1,338	1,380	1,388	1,394	1,444
<b>Total, Corporation income taxes</b>	<b>181,085</b>	<b>236,801</b>	<b>347,741</b>	<b>429,595</b>	<b>445,095</b>	<b>455,306</b>	<b>473,238</b>	<b>479,575</b>	<b>485,226</b>	<b>494,019</b>	<b>506,756</b>	<b>520,323</b>
<b>Social insurance and retirement receipts (trust funds):</b>												
Employment and general retirement:												
Old-age survivors insurance (off-budget) .....	483,683	543,053	604,169	634,377	668,558	713,291	754,446	800,805	844,016	884,286	934,726	983,459
Legislative proposal, not subject to PAYGO .....	.....	-53,995	-25,303	.....	61	-36	-16	-10	-6	-7	-9	-8
Legislative proposal, subject to PAYGO .....	.....	18	208	288	-1,113	-1,336	-1,192	-1,085	-665	-545	-616	-465
Disability insurance (off-budget) .....	82,105	92,219	102,595	107,725	113,529	121,126	128,114	135,985	143,323	150,161	158,727	167,003
Legislative proposal, not subject to PAYGO .....	.....	-9,158	-4,293	.....	10	-6	-3	-2	-1	-1	-1	-1
Legislative proposal, subject to PAYGO .....	.....	3	35	49	-189	-227	-202	-183	-113	-92	-105	-79
Hospital Insurance .....	188,490	202,529	213,857	225,700	238,815	256,164	271,870	289,109	304,835	319,223	337,341	355,310
Legislative proposal, not subject to PAYGO .....	.....	.....	.....	.....	.....	.....	-1	-1	-1	-1	-2	-2
Legislative proposal, subject to PAYGO .....	.....	18	86	530	782	958	1,093	1,216	1,426	1,552	1,629	1,773
Railroad retirement:												
Social security equivalent account ....	1,823	1,978	2,136	2,176	2,237	2,307	2,386	2,462	2,535	2,608	2,680	2,754
Rail pension & supplemental annuity .....	2,415	2,509	2,679	2,759	2,965	3,087	3,188	3,290	3,385	3,637	3,932	4,075
Total, Employment and general retirement (On-budget) .....	758,516	779,174	896,169	973,604	1,025,655	1,095,328	1,159,683	1,231,586	1,298,734	1,360,821	1,438,302	1,513,819
(Off-budget) .....	(192,728)	(207,034)	(218,758)	(231,165)	(244,799)	(262,516)	(278,536)	(296,076)	(312,180)	(327,019)	(345,580)	(363,910)
(Off-budget) .....	(565,788)	(572,140)	(677,411)	(742,439)	(780,856)	(832,812)	(881,147)	(935,510)	(986,554)	(1,033,802)	(1,092,722)	(1,149,909)
Unemployment insurance:												
Deposits by States <sup>1</sup> .....	49,269	50,083	51,445	52,150	53,149	53,197	51,858	50,022	47,856	48,028	48,830	50,334
Legislative proposal, not subject to PAYGO .....	.....	.....	.....	-1	-3	-8	-18	-35	-41	-50	-77	-76
Legislative proposal, subject to PAYGO .....	.....	-1	52	316	11,216	11,830	11,120	10,522	8,306	6,900	7,725	6,824
Federal unemployment receipts <sup>1</sup> .....	6,799	6,847	8,774	9,896	10,113	11,898	10,373	10,391	8,424	8,438	8,819	9,290
Legislative proposal, subject to PAYGO .....	.....	.....	-2,521	-3,086	339,000	2,251	1,790	1,594	31	501	582	222
Railroad unemployment receipts <sup>1</sup> .....	173	209	111	50	99	164	165	119	89	116	157	160
Total, Unemployment insurance .....	56,241	57,138	57,861	59,325	74,913	79,332	75,288	72,613	64,665	63,933	66,036	66,754
Other retirement:												
Federal employees retirement- employee share .....	4,005	4,315	4,108	3,948	3,861	3,884	3,977	4,157	4,445	4,891	5,553	6,524
Legislative proposal, subject to PAYGO .....	.....	.....	899	1,805	2,752	2,840	2,938	3,041	3,140	3,242	3,347	3,452

**Table 15–5. RECEIPTS BY SOURCE—Continued**  
(In millions of dollars)

Source	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Non-Federal employees retirement <sup>2</sup> .....	30	23	20	19	19	19	19	19	19	19	19	19
Total, Other retirement .....	4,035	4,338	5,027	5,772	6,632	6,743	6,934	7,217	7,604	8,152	8,919	9,995
<b>Total, Social insurance and retirement receipts (trust funds)</b>	818,792	840,650	959,057	1,038,701	1,107,200	1,181,403	1,241,905	1,311,416	1,371,003	1,432,906	1,513,257	1,590,568
(On-budget) .....	(253,004)	(268,510)	(281,646)	(296,262)	(326,344)	(348,591)	(360,758)	(375,906)	(384,449)	(399,104)	(420,535)	(440,659)
(Off-budget) .....	(565,788)	(572,140)	(677,411)	(742,439)	(780,856)	(832,812)	(881,147)	(935,510)	(986,554)	(1,033,802)	(1,092,722)	(1,149,909)
<b>Excise taxes:</b>												
<b>Federal funds:</b>												
Alcohol .....	9,294	9,634	9,663	9,678	9,700	9,868	10,102	10,349	10,605	10,864	11,131	11,403
Legislative proposal, subject to PAYGO .....		-97	-96	-24								
Tobacco .....	16,685	16,489	16,184	15,887	15,813	15,803	15,760	15,655	15,534	15,369	15,179	15,026
Transportation fuels .....	-8,644	-4,986	-1,018	-1,017	-1,021	-1,015	-1,027	-1,032	-1,043	-1,046	-1,048	-1,055
Legislative proposal, subject to PAYGO .....		-176	-759	-370								
Telephone and teletype services .....	930	694	456	280	163	118	109	106	102	100	100	100
High-cost health insurance coverage .....								5,724	20,271	24,433	29,436	35,816
Health insurance providers .....				7,600	11,135	11,300	13,770	14,280	15,126	16,047	17,024	18,061
Indoor tanning services .....	99	132	151	163	175	188	201	214	219	221	223	224
Medical devices .....			1,861	2,601	2,733	2,835	2,970	3,132	3,303	3,481	3,668	3,865
Other Federal fund excise taxes .....	540	1,169	2,326	2,436	2,542	2,630	2,717	2,801	2,887	2,969	3,060	3,154
Legislative proposal, subject to PAYGO .....		97	92	20	-4	-4	-4	-4	-5	-5	-6	-6
Total, Federal funds .....	18,904	22,956	28,860	37,254	41,236	41,723	44,598	51,225	66,999	72,433	78,767	86,588
<b>Trust funds:</b>												
Transportation .....	36,906	38,714	39,308	40,249	41,175	42,118	43,044	43,834	44,464	45,164	45,956	46,970
Airport and airway .....	11,532	11,600	11,949	12,406	13,001	13,606	14,182	14,724	15,132	15,532	15,930	16,335
Legislative proposal, subject to PAYGO .....			863	889	923	959	993	1,023	1,044	1,064	1,084	1,104
Sport fish restoration and boating safety .....	593	565	595	625	662	696	736	766	806	836	866	901
Tobacco assessments .....	932	981	960	960	960	960	960	960	960	960	960	960
Black lung disability insurance .....	623	603	600	595	598	607	615	623	390	293	299	305
Inland waterway .....	84	92	95	98	101	105	109	113	116	118	121	124
Legislative proposal, subject to PAYGO .....			2	2	2	2	2	2	2	2	2	2
Hazardous substance superfund (Legislative proposal subject to PAYGO) .....			787	1,053	1,073	1,097	1,120	1,140	1,156	1,169	1,181	1,192
Oil spill liability .....	501	508	509	507	509	514	567	584	585	585	583	581
Legislative proposal, subject to PAYGO .....			74	96	96	96	99	101	100	101	101	100
Vaccine injury compensation .....	278	274	283	293	303	310	318	325	334	341	351	361
Leaking underground storage tank .....	152	178	182	184	188	190	192	195	197	199	201	205
Supplementary medical insurance .....	1,876	2,944	2,800	2,980	3,000	3,000	3,900	4,090	2,930	2,800	2,800	2,800
Patient-centered outcomes research .....			188	384	418	439	467	491	518	548	580	616
Total, Trust funds .....	53,477	56,459	59,195	61,321	63,009	64,699	67,304	68,971	68,734	69,712	71,015	72,556
<b>Total, Excise taxes</b> .....	72,381	79,415	88,055	98,575	104,245	106,422	111,902	120,196	135,733	142,145	149,782	159,144
<b>Estate and gift taxes:</b>												
<b>Federal funds</b> .....	7,399	11,375	11,758	12,756	13,531	14,401	15,311	16,296	17,308	18,313	19,396	20,403
Legislative proposal, subject to PAYGO .....		2	980	10,112	11,537	12,677	13,932	15,322	16,807	18,347	20,047	21,704
<b>Total, Estate and gift taxes</b> .....	7,399	11,377	12,738	22,868	25,068	27,078	29,243	31,618	34,115	36,660	39,443	42,107
<b>Customs duties and fees:</b>												
<b>Federal funds:</b>												
Federal funds .....	27,982	29,197	31,912	34,026	35,896	37,464	39,267	41,460	43,608	45,656	47,621	49,744

**Table 15-5. RECEIPTS BY SOURCE—Continued**  
(In millions of dollars)

Source	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Legislative proposal, subject to PAYGO .....	.....	.....	-167	-311	-11	-16	-25	-33	-40	-44	-48	-51
Total, Federal funds .....	27,982	29,197	31,745	33,715	35,885	37,448	39,242	41,427	43,568	45,612	47,573	49,693
Trust funds:												
Trust funds .....	1,537	1,620	1,743	1,870	1,972	2,031	2,126	2,252	2,371	2,480	2,584	2,667
<b>Total, Customs duties and fees .....</b>	<b>29,519</b>	<b>30,817</b>	<b>33,488</b>	<b>35,585</b>	<b>37,857</b>	<b>39,479</b>	<b>41,368</b>	<b>43,679</b>	<b>45,939</b>	<b>48,092</b>	<b>50,157</b>	<b>52,360</b>
<b>Miscellaneous receipts:</b>												
Federal funds:												
Miscellaneous taxes .....	415	410	412	413	415	417	418	420	421	423	425	426
Deposit of earnings, Federal Reserve System .....	82,546	81,339	80,356	61,314	45,758	36,279	35,738	37,519	39,840	42,466	43,370	45,338
Legislative proposal, subject to PAYGO .....	.....	.....	53	12	12	12	13	13	13	14	14	14
Transfers from the Federal Reserve .....	183	432	448	497	554	562	571	579	588	597	606	615
Fees for permits and regulatory and judicial services .....	12,032	12,736	13,284	29,281	35,096	36,382	35,793	37,024	40,349	44,285	48,162	51,943
Legislative proposal, subject to PAYGO .....	.....	.....	214	418	422	426	431	435	440	445	449	454
Fines, penalties, and forfeitures .....	6,819	8,951	5,835	20,606	29,951	32,326	35,364	37,623	39,579	41,601	43,739	45,946
Refunds and recoveries .....	-45	-80	-51	-33	-32	-32	-32	-32	-32	-32	-32	-32
Total, Federal funds .....	101,950	103,788	100,551	112,508	112,176	106,372	108,296	113,581	121,198	129,799	136,733	144,704
Trust funds:												
United Mine Workers of America, combined benefit fund .....	38	35	32	29	27	25	23	21	16	14	13	5
Defense cooperation .....	55	223	65	127	127	127	127	127	127	127	127	127
Inland waterways (Legislative proposal, subject to PAYGO) .....	.....	.....	80	111	111	111	111	111	111	111	111	112
Fines, penalties, and forfeitures .....	774	843	889	879	866	889	873	901	912	942	964	986
Total, Trust funds .....	867	1,101	1,066	1,146	1,131	1,152	1,134	1,160	1,166	1,194	1,215	1,230
<b>Total, Miscellaneous receipts .....</b>	<b>102,817</b>	<b>104,889</b>	<b>101,617</b>	<b>113,654</b>	<b>113,307</b>	<b>107,524</b>	<b>109,430</b>	<b>114,741</b>	<b>122,364</b>	<b>130,993</b>	<b>137,948</b>	<b>145,934</b>
<b>Total, budget receipts .....</b>	<b>2,303,466</b>	<b>2,468,599</b>	<b>2,901,956</b>	<b>3,215,293</b>	<b>3,450,153</b>	<b>3,680,085</b>	<b>3,919,275</b>	<b>4,152,979</b>	<b>4,378,572</b>	<b>4,604,049</b>	<b>4,856,724</b>	<b>5,115,321</b>
(On-budget) .....	(1,737,678)	(1,896,459)	(2,224,545)	(2,472,854)	(2,669,297)	(2,847,273)	(3,038,128)	(3,217,469)	(3,392,018)	(3,570,247)	(3,764,002)	(3,965,412)
(Off-budget) .....	(565,788)	(572,140)	(677,411)	(742,439)	(780,856)	(832,812)	(881,147)	(935,510)	(986,554)	(1,033,802)	(1,092,722)	(1,149,909)

<sup>1</sup> Deposits by States cover the benefit part of the program. Federal unemployment receipts cover administrative costs at both the Federal and State levels. Railroad unemployment receipts cover both the benefits and administrative costs of the program for the railroads.

<sup>2</sup> Represents employer and employee contributions to the civil service retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.





## 16. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS

### I. INTRODUCTION AND BACKGROUND

The Government records money collected in one of two ways. It is either recorded as a governmental receipt and included in the amount reported on the receipts side of the budget or it is recorded as an offsetting collection or offsetting receipt, which reduces (or “offsets”) the amount reported on the outlay side of the budget. Regardless of how it is recorded, money collected has the same impact on the deficit or surplus; it reduces the deficit or increases the surplus. Governmental receipts are discussed in the previous chapter, “Governmental Receipts.” The first section of this chapter broadly discusses offsetting collections and offsetting receipts. The second section discusses user charges, which consist of a subset of offsetting collections and offsetting receipts and a small share of governmental receipts. The third and final section of this chapter describes the Administration’s user charge proposals.

As discussed below, offsetting collections and offsetting receipts are cash inflows to a budget account that are used to finance Government activities, and the spending associated with these activities is included in total or “gross outlays.” For 2011, gross outlays to the public were \$4,152 billion,<sup>1</sup> or 27.8 percent of gross domestic product (GDP). Offsetting collections and offsetting receipts from the public are subtracted from gross outlays to the public to yield “net outlays,” which is the most common measure of outlays cited and generally referred to as simply “outlays.” For 2011, net outlays were \$3,603 billion or 24.1 percent of GDP. Government-wide net outlays reflect the Government’s net disbursements to the public and are subtracted from governmental receipts to derive the Government’s surplus or deficit. For 2011, governmental receipts were \$2,303 billion or 15.4 percent of GDP and the deficit was \$1,300 billion, or 8.7 percent of GDP.

Some offsetting collections and offsetting receipts arise from business-like transactions with the public. Unlike governmental receipts, these offsetting collections and offsetting receipts are not derived from the Government’s exercise of its sovereign power. Rather, they arise primarily from voluntary payments from the public for goods or services provided by the Government. For this reason, it is appropriate to classify these offsetting collections and offsetting receipts as offsets to outlays rather than as governmental receipts on the receipts side of the budget.<sup>2</sup>

<sup>1</sup> Gross outlays to the public are derived by subtracting intragovernmental outlays from gross outlays. For 2011, gross outlays were \$5,291 billion. Intragovernmental outlays are outlays associated with transfers from one Government account to another Government account. For 2011, intragovernmental outlays totaled \$1,139 billion.

<sup>2</sup> Showing collections from business-type transactions as offsets on the spending side of the budget follows the concept recommended by the *Report of the President’s Commission on Budget Concepts* in 1967 and is discussed in Chapter 12 of this volume: “Budget Concepts.” Offset-

ting offsetting collections and offsetting receipts as offsets to outlays produces budget totals for receipts, (net) outlays, and budget authority that reflect the amount of resources allocated by the Government through collective political choice, rather than through the marketplace. Activities that generate offsetting collections and offsetting receipts include the sale of postage stamps, land, timber, oil, electricity, and radio spectrum rights; services provided to the public (e.g., passports and admission to national parks); and premiums for health care benefits (e.g., Medicare Parts B and D).

A relatively small portion of offsetting collections and offsetting receipts is derived from the Government’s exercise of its sovereign power. These collections are classified as offsetting rather than governmental receipts either because this classification has been specified in law or because these collections have traditionally been classified as offsets to outlays.<sup>3</sup> Most of the offsetting collections and offsetting receipts in this category derive from fees from Government regulatory services or Government licenses, and include, for example, charges for regulating the nuclear energy industry, bankruptcy filing fees, immigration fees, food inspection fees, passport fees, and patent and trademark fees.

The final two sources of offsetting collections and offsetting receipts are gifts and intragovernmental transfers. Gifts are voluntary contributions to the Government to support particular purposes or reduce the amount of Government debt held by the public. Examples of intragovernmental transfers include interest payments to funds that hold Government securities (such as the Social Security trust funds), general fund transfers to civilian and military retirement and health benefits funds, and agency payments to funds for employee benefits.

Although both offsetting collections and offsetting receipts are subtracted from gross outlays to derive net outlays, they are treated differently when it comes to accounting for specific programs and agencies. Offsetting collections are credited to expenditure accounts, which

ting governmental receipts, which are a subset of offsetting receipts and were \$7.6 billion in 2011, result from the Government’s exercise of its sovereign power to tax, but by law are required to be subtracted from outlays rather than added to governmental receipts.

<sup>3</sup> Where a regulatory or licensing fee is closely linked to the provision of a service by a regulating or licensing agency, the fee could be viewed as payment for a particular service or for the right to engage in a particular type of business. Nevertheless, many budget experts believe such fees are more appropriately classified as governmental receipts because the fees are compulsory and not voluntary payments for goods or services. Any reclassification of such fees could require a change in law and would make fees currently classified as offsets to discretionary spending during the Congressional appropriations process no longer available for that purpose.

are accounts from which funds can be spent; offsetting collections credited to expenditure accounts reduce or offset spending at the account level. By contrast, offsetting receipts are credited to receipt accounts (even though they are not recorded as governmental receipts), and receipts accounts are used to record the collection, but not the expenditure, of funds. In some cases, offsetting receipts are reported in a particular agency and reduce or offset the outlays reported for that agency. In other cases, the offsetting receipts are “undistributed,” which means they reduce total Government outlays, but not the outlays of any particular agency.

The distinction between offsetting collections and offsetting receipts is generally based on the form of Congressional authorization. Offsetting collections are usually authorized to be spent for the purposes of the

expenditure account and are generally available for use when collected, without further action by the Congress. Offsetting receipts may or may not be designated for a specific purpose, depending on the legislation that authorizes their collection. If designated for a particular purpose, the offsetting receipts may, in some cases, be spent without further action by the Congress. When not designated for a particular purpose, offsetting receipts are credited to the general fund, which contains all funds not otherwise allocated and which is used to finance Government spending that is not financed out of dedicated funds.

Table 16–1 summarizes offsetting collections and offsetting receipts from the public. Note that this table focuses only on payments from the public and does not include intragovernmental transactions. The table shows the amount of the Government’s financial transactions

**Table 16–1. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC**

(In billions of dollars)

	Actual 2011	Estimate	
		2012	2013
<b>Offsetting collections (credited to expenditure accounts):</b>			
User charges:			
Postal Service stamps and other USPS fees (off-budget) .....	66.5	63.5	62.9
Defense Commissary Agency .....	6.0	6.0	6.1
Employee contributions for employees and retired employees health benefits funds .....	12.8	13.0	14.0
Sale of energy:			
Tennessee Valley Authority .....	36.7	35.1	34.7
Bonneville Power Administration .....	3.2	3.8	4.2
All other user charges .....	80.0	66.6	117.8
Subtotal, user charges .....	205.2	188.0	239.6
Other collections credited to expenditure accounts:			
Commodity Credit Corporation fund .....	8.4	7.1	7.9
Supplemental Security Income (collections from the States) .....	3.6	3.5	3.6
Other collections .....	19.0	8.6	9.4
Subtotal, other collections .....	30.9	19.1	21.0
Subtotal, offsetting collections .....	236.1	207.1	260.6
<b>Offsetting receipts (deposited in receipt accounts):</b>			
User charges:			
Medicare premiums .....	63.4	65.3	73.3
Outer Continental Shelf rents, bonuses, and royalties .....	6.4	7.9	7.0
All other user charges .....	24.0	25.2	27.4
Subtotal, user charges deposited in receipt accounts .....	93.7	98.4	107.7
Other collections deposited in receipt accounts:			
Other Medicare collections .....	0.0	0.0	5.9
Military assistance program sales .....	23.9	25.5	27.7
Interest received from credit financing accounts .....	51.7	72.3	75.5
All other collections deposited in receipt accounts .....	143.6	92.6	63.5
Subtotal, other collections deposited in receipt accounts .....	219.2	190.4	172.7
Subtotal, offsetting receipts .....	312.9	288.9	280.4
<b>Total, offsetting collections and offsetting receipts from the public .....</b>	<b>549.0</b>	<b>496.0</b>	<b>541.0</b>
Total, offsetting collections and offsetting receipts excluding off-budget .....	482.3	432.4	478.0
<b>ADDENDUM:</b>			
User charges that are offsetting collections or offsetting receipts <sup>1</sup> .....	298.9	286.4	317.3
Other offsetting collections and offsetting receipts from the public .....	250.1	209.6	193.6
<b>Total, offsetting collections and offsetting receipts from the public .....</b>	<b>549.0</b>	<b>496.0</b>	<b>541.0</b>

<sup>1</sup> Excludes user charges that are classified on the receipts side of the budget. For total user charges, see Table 16–3.

**Table 16–2 OFFSETTING RECEIPTS BY TYPE SUMMARY**  
(In millions of dollars)

Receipt Type	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
Intragovernmental Receipts: <sup>1</sup>							
Interfund .....	751,143	779,378	745,744	722,003	746,862	787,340	819,342
Intrafund .....	44,086	43,856	37,492	43,947	46,490	50,895	50,388
Total Intragovernmental .....	795,229	823,234	783,236	765,950	793,352	838,235	869,730
Receipts from Non-Federal Sources:							
Proprietary .....	305,289	280,159	270,004	282,307	285,775	288,421	294,180
Offsetting Governmental .....	7,647	8,691	10,363	15,274	18,524	16,869	13,140
Total Non-Federal Sources .....	312,936	288,850	280,367	297,581	304,299	305,290	307,320
Total Offsetting Receipts .....	1,108,165	1,112,084	1,063,603	1,063,531	1,097,651	1,143,525	1,177,050

<sup>1</sup> Interfund offsetting receipts are trust fund receipts from Federal funds and Federal fund receipts from trust funds. Intrafund offsetting receipts are trust fund receipts from other trust funds and Federal fund receipts from other Federal funds.

with the public that are not evident from the commonly cited budget measure of (net) outlays. For 2013, the table shows that total offsetting collections and offsetting receipts from the public are estimated to be \$541.0 billion or 3.6 percent of GDP. Of these, an estimated \$260.6 billion are offsetting collections and an estimated \$280.4 billion are offsetting receipts. Table 16–1 also identifies those offsetting collections and offsetting receipts that are considered user charges, as defined and discussed below.

As shown in the table, major offsetting collections from the public include proceeds from Postal Service sales, electrical power sales, loan repayments to the Commodity Credit Corporation for loans made prior to enactment of the Federal Credit Reform Act, and Federal employee payments for health insurance. As also shown in the table, major offsetting receipts from the public include Medicare Part B premiums, proceeds from military assistance program sales, rents and royalties from Outer Continental Shelf oil extraction, and interest income.

Tables 16–2 (above) and 16-5 (located at the end of this chapter) provide further detail about offsetting re-

ceipts, including both offsetting receipts from the public (as summarized in Table 16–1) and intragovernmental transactions.<sup>4</sup> In total, offsetting receipts are estimated to be \$1,063.6 billion in 2013: \$783.2 billion are from intragovernmental transactions and \$280.4 billion are from the public. The offsetting receipts from the public consist of proprietary receipts (\$270.0 billion) and those classified as offsetting receipts by law or long-standing practice (\$10.4 billion) (shown as offsetting governmental receipts in the table). Proprietary receipts from the public result from business-like transactions with the public such as the sale of goods or services, or the rental or use of Government land. Offsetting governmental receipts are composed of fees from Government regulatory services or Government licenses and, absent a specification in law or a long-standing practice, would otherwise have been classified on the receipts side of the budget.

<sup>4</sup> A comparable table showing total offsetting collections from the public and from intragovernmental transactions is not presented here because the data are not currently reported in a way that would permit such a presentation.

## II. USER CHARGES

User charges or user fees<sup>5</sup> refer generally to those monies that the Government receives from the public for market-oriented activities and regulatory activities. Laws that authorize user charges, in combination with budget concepts, determine whether a user charge is classified as an offsetting collection, an offsetting receipt, or a governmental receipt. Almost all user charges, as defined below, are classified as offsetting collections or offsetting receipts; only 1.3 to 1.4 percent of user charges are classified as governmental receipts. As summarized in Table 16-3, total user charges for 2013 are estimated to be \$352.3

billion with \$347.3 billion being offsetting collections or offsetting receipts, and accounting for more than half of all offsetting collections and offsetting receipts from the public.

**Definition.** In this chapter, user charges refer to fees, charges, and assessments levied on individuals or organizations directly benefiting from or subject to regulation by a Government program or activity, where the payers do not represent a broad segment of the public such as those who pay income taxes.

Examples of business-type or market-oriented user charges and regulatory and licensing user charges include those charges listed above for offsetting collections and offsetting receipts. User charges exclude certain offsetting collections and offsetting receipts from the public, such as repayments received from credit programs, interest and dividends, and also exclude payments from one part of the Federal Government to another. In addition,

<sup>5</sup> In this chapter, the term “user charge” is generally used and has the same meaning as the term “user fee.” The term “user charge” is the one used in OMB Circular No. A–11, “Preparation, Submission, and Execution of the Budget;” OMB Circular No. A–25, “User Charges;” and Chapter 12 of this volume, “Budget Concepts.” In common usage, the terms “user charge” and “user fee” are often used interchangeably; and in *A Glossary of Terms Used in the Federal Budget Process*, GAO provides the same definition for both terms.



user charges do not include dedicated taxes (such as taxes paid to social insurance programs or excise taxes on gasoline) or customs duties, fines, penalties, or forfeitures.

**Alternative definitions.** The definition for user charges used in this chapter follows the definition used in OMB Circular No. A-25, “User Charges,” which provides policy guidance to Executive Branch agencies on setting the amount for user charges. Alternative definitions may be used for other purposes. Much of the discussion of user charges below—their purpose, when they should be levied, and how the amount should be set—applies to these alternative definitions as well.

The definition of user charges could be narrower than the one used in this chapter by being limited to proceeds from the sale of goods and services, excluding the proceeds from the sale of assets, and by being limited to proceeds that are dedicated to financing the goods and services being provided. This definition is similar to one the House of Representatives uses as a guide for purposes of committee jurisdiction. (See the *Congressional Record*, January 3, 1991, p. H31, item 8.) The definition of user charges could be even narrower by excluding regulatory fees and focusing solely on business-type transactions. Alternatively, the user charge definition could be broader than the one used in this chapter by including beneficiary- or liability-based excise taxes.<sup>6</sup>

**What is the purpose of user charges?** User charges are intended to improve the efficiency and equity of financing certain Government activities. Charging users for activities that benefit a relatively limited number of people and charging for regulatory activities reduces the burden on the general taxpayer.

User charges that are set to cover the costs of production of goods and services can result in more efficient resource allocation within the economy. When buyers are charged the cost of providing goods and services, they

<sup>6</sup>Beneficiary- and liability-based taxes are terms taken from the Congressional Budget Office, *The Growth of Federal User Charges*, August 1993, and updated in October 1995. Gasoline taxes are an example of beneficiary-based taxes. An example of a liability-based tax is the excise tax that formerly helped fund the hazardous substance superfund in the Environmental Protection Agency. This tax was paid by industry groups to finance environmental cleanup activities related to the industry activity but not necessarily caused by the payer of the fee.

make better cost-benefit calculations regarding the size of their purchase, which in turn signals to the Government how much of the goods or services it should provide. Prices in private, competitive markets serve the same purposes. User charges for goods and services that do not have special social or distributional benefits may also improve equity or fairness by requiring those who benefit from an activity to pay for it and by not requiring those who do not benefit from an activity to pay for it.

**When should the Government impose a charge?** Discussions of whether to finance spending with a tax or a fee often focus on whether the benefits of the activity accrue to the public in general or to a limited group of people. In general, if the benefits of spending accrue broadly to the public or have special social or distributional benefits, then the program should be financed by taxes paid by the public. In contrast, if the benefits accrue to a limited number of private individuals or organizations and do not have special social or distributional benefits, then the program should be financed by charges paid by the private beneficiaries. For Federal programs where the benefits are entirely public or entirely private, applying this principle can be relatively easy. For example, according to this principle, the benefits from national defense accrue to the public in general, and should be and are financed by taxes. In contrast, the benefits of electricity sold by the Tennessee Valley Authority accrue exclusively to those using the electricity, and should be and are financed by user charges.

In many cases, however, an activity has benefits that accrue to both public and private groups, and it may be difficult to identify how much of the benefits accrue to each. Because of this, it can be difficult to know how much of the program should be financed by taxes and how much by fees. For example, the benefits from recreation areas are mixed. Fees for visitors to these areas are appropriate because the visitors benefit directly from their visit, but the public in general also benefits because these areas protect the Nation’s natural and historic heritage now and for posterity. For this reason, visitor recreation fees do not generally cover the full cost to the Government of maintaining the recreation property. Where a fee may be appropriate to finance all or part of an activity, the extent

**Table 16-3. GROSS OUTLAYS TO THE PUBLIC, USER CHARGES, OTHER OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC, AND NET OUTLAYS**

(In billions of dollars)

	Actual 2011	Estimate	
		2012	2013
Gross outlays to the public .....	4,152.1	4,291.5	4,344.3
Offsetting collections and offsetting receipts from the public:			
User charges <sup>1</sup> .....	298.9	286.4	347.3
Other .....	250.1	209.6	193.6
Subtotal, offsetting collections and offsetting receipts from the public .....	549.0	496.0	541.0
Net outlays .....	3,603.1	3,795.5	3,803.4

<sup>1</sup> Total user charges for 2011 were \$302.7 billion, with only 3.8 billion classified as governmental receipts. Total user charges for 2012 and 2013 are estimated to be \$290.1 billion and \$352.3 billion, respectively, with only \$3.7 billion and \$5.0 billion classified as governmental receipts, respectively.

to which a fee can be easily administered must be considered. For example, if fees are charged for entering or using Government-owned land then there must be clear points of entry onto the land and attendants patrolling and monitoring the land's use.

**What amount should be charged?** When the Government is acting in its capacity as sovereign and where user charges are appropriate, current policy supports setting fees equal to the full cost to the Government, including both direct and indirect costs. When the Government is not acting in its capacity as sovereign and engages in a purely business-type transaction (such as leasing or selling goods, services, or resources), market price is generally the basis for establishing the fee.<sup>7</sup> If the Government is engaged in a purely business-type transaction and economic resources are allocated efficiently, then this market price should be equal to or greater than the Government's full cost of production.

**Classification of user charges in the budget.** As shown in the note to Table 16-3, most user charges are classified as offsets to outlays on the spending side of the

<sup>7</sup> Policies for setting user charges are promulgated in OMB Circular No. A-25: "User Charges" (July 8, 1993).

### III. USER CHARGE PROPOSALS

As shown in Table 16-1 above, an estimated \$239.6 billion of user charges for 2013 will be credited directly to expenditure accounts and will generally be available for expenditure when they are collected, without further action by the Congress. An estimated \$107.7 billion of user charges for 2013 will be deposited in offsetting receipt accounts and will be available to be spent only according to the legislation that established the charges.

As shown in Table 16-4, the Administration is proposing new or increased user charges that would, in the aggregate, increase collections by an estimated \$3.2 billion in 2013 and an average of \$17.0 billion per year from 2014-22. These amounts are offsetting collections, offsetting receipts, and governmental receipts only; they do not include related spending. Each proposal is classified as either discretionary or mandatory, as those terms are defined in the Budget Enforcement Act of 1990 as amended. "Discretionary" refers to user charges controlled through annual appropriations acts and generally under the jurisdiction of the appropriations committees in the Congress. "Mandatory" refers to user charges controlled by permanent laws and under the jurisdiction of the authorizing committees. These and other terms are discussed further in this volume in Chapter 12, "Budget Concepts."

#### A. Discretionary User Charge Proposals

##### 1. Offsetting collections

##### Department of Defense (DoD)

*TRICARE pharmacy benefit co-payments increase.* To encourage the use of less expensive mail order phar-

macies and military treatment facility pharmacies, the Budget includes a proposal to phase in over 10 years increases in fixed fee prescription drug co-payments for active duty families and all retirees regardless of the age of the beneficiary. The increased fees from active duty military families and under age 65 retirees and their families would yield discretionary savings in the Defense Health Program of \$179 million in 2013 and \$5.3 billion over the 10-year budget horizon. The increased fees from the over age 65 retirees and their families would reduce accrual costs by \$979 million in 2013 and \$12.5 billion over the 10-year budget horizon; these costs are classified as discretionary and result in reduced contributions to the Medicare Eligible Retiree Health Care Fund (MERHCF). In addition, the increased fees from over age 65 retirees and their families would yield \$10.5 billion in mandatory savings in the MERHCF over the 10-year budget horizon and \$0.1 in mandatory savings for Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

budget, but a few are classified on the receipts side of the budget. An estimated \$5.0 billion in 2013 of user charges are classified on the receipts side and are included in the governmental receipts totals described in the previous chapter, "Governmental Receipts." They are classified as receipts because they are regulatory charges collected by the Federal Government by the exercise of its sovereign powers. Therefore, conceptually they should be classified as governmental receipts, and, unlike in a number of other cases, there is not a long-standing practice or specification in law to classify them as offsetting receipts. Examples include filing fees in the United States courts and agricultural quarantine inspection fees.

The remaining user charges, an estimated \$347.3 billion in 2013, are classified as offsetting collections and offsetting receipts on the spending side of the budget. As discussed above in the context of all offsetting collections and offsetting receipts, some of these user charges are collected by the Federal Government by the exercise of its sovereign powers and conceptually should appear on the receipts side of the budget, but they are required by law or a long-standing practice to be classified on the spending side.

*TRICARE Prime enrollment fee increase, Standard / Extra annual enrollment fee, and deductible / catastrophic cap adjustments.* The Budget includes a proposal (1) to phase in increases in Prime enrollment fees, slight increases in deductibles, and adjustments to the catastrophic cap, and (2) to impose new annual fees on Standard and Extra enrollees. The Prime fee increases would be phased in over four years and based on the amount of beneficiary retired pay. The new annual Standard/Extra fees would be phased in over five years, but not based on retired pay. The fee adjustments would apply only to retirees under age 65 and their family members and together with the deductible increases and cap adjustments would generate savings in the Defense Health Program of \$273 million in

**Table 16-4. USER CHARGE PROPOSALS IN THE FY 2013 BUDGET <sup>1</sup>**  
(Estimated collections in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013- 2017	2013- 2022
<b>OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS</b>													
<b>DISCRETIONARY:</b>													
<i>1. Offsetting collections</i>													
<b>Department of Defense</b>													
TRICARE pharmacy benefit co-payments increase .....		179	304	361	418	475	550	624	700	791	893	1,737	5,295
TRICARE Prime enrollment fee increase, Standard/Extra annual enrollment fee, and deductible/catastrophic cap adjustments .....		273	548	775	1,003	1,175	1,331	1,481	1,649	1,849	2,057	3,774	12,141
<b>Department of Health and Human Services</b>													
Food and Drug Administration (FDA): Generic drug review activities fees <sup>2</sup> ..		299	318	339	361	385	410	436	465	495	527	1,702	4,035
FDA: Biosimilar review fee <sup>2</sup> .....		20	22	23	24	26	28	29	31	33	36	115	272
FDA: Reinspection fee for medical products .....		15	15	16	17	18	18	19	20	21	22	81	181
FDA: Food facilities registration and inspection fees .....		220	230	240	251	263	274	287	300	313	327	1,204	2,705
FDA: International courier fees .....		6	6	6	6	7	7	7	8	8	8	31	69
FDA: Cosmetic facility registration fees .....		19	20	20	21	22	23	24	25	27	28	102	229
FDA: Food contract substances fee .....		5	5	5	6	6	6	6	7	7	7	27	60
Health Resources and Services Administration: 340B Pharmacy Affairs fee .....		6	6	6	6	6	6	6	6	6	6	30	60
Substance Abuse and Mental Health Services Administration: Data request and publication request fee .....		2	2	2	2	2	2	2	2	2	2	10	20
<b>Department of Homeland Security</b>													
Transportation Security Administration (TSA): Aviation passenger security fee increase .....		117	480	574	687	805	927	946	966	985	1,005	2,663	7,492
Customs and Border Protection: Inspection services fee .....		25	25	26	26	27	27	27	28	29	29	129	269
<b>Department of the Interior</b>													
Bureau of Safety and Environmental Enforcement (BSEE): Outer Continental Shelf oil and gas lease inspection fee increase .....		3	3	3	3	3	3	3	3	3	3	15	30
Bureau of Land Management (BLM): Public lands oil and gas lease inspection fees .....		48	48	48	48	48	48	48	48	48	48	240	480
BLM: Grazing administrative processing fee .....		7	9	9								25	25
<b>Department of Labor</b>													
Mine Safety and Health Administration: Rock dust analysis fee .....			*	2	2	2	2	2	2	2	2	6	16
Employment and Training Administration (ETA): National Agricultural Workers Survey fee .....		1	1	1	1	1	1	1	1	1	1	5	10
<b>Department of State</b>													
Western Hemisphere Travel Initiative surcharge extension .....		305										305	305
Border Crossing Card fee increase .....		17	17	17	17	17	17	17	17	17	17	85	170
<b>Department of Transportation</b>													
Federal Railroad Administration: Railroad safety inspection fee .....		80	185	188	191	194	198	202	206	211	215	838	1,870
<b>Environmental Protection Agency</b>													
Energy Star product fees .....			5	5	5	5	5	5	5	5	5	20	45
<i>2. Offsetting receipts</i>													
<b>Department of Transportation:</b>													
Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline design review fees .....		4										4	4
PHMSA: Hazardous materials special permits and approvals fees .....		12	12	12	12	13	13	13	14	14	14	61	129
Subtotal, discretionary user charge proposals .....		1,663	2,261	2,678	3,107	3,500	3,896	4,185	4,503	4,867	5,252	13,209	35,912
<b>MANDATORY:</b>													
<i>Offsetting collections</i>													
<b>Department of Agriculture</b>													
Biobased labeling fee .....		1	1	1	1	1	1	1	1	1	1	5	10
<b>Department of Defense</b>													
TRICARE pharmacy benefit co-payment increase <sup>3</sup> .....		256	335	542	678	936	1,131	1,335	1,575	1,865	1,993	2,747	10,646
TRICARE-For-Life enrollment fee .....		141	287	436	586	627	672	716	764	816	872	2,077	5,917

**Table 16-4. USER CHARGE PROPOSALS IN THE FY 2013 BUDGET<sup>1</sup>—Continued**  
(Estimated collections in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013- 2017	2013- 2022
<b>Department of Homeland Security</b>													
Federal Emergency Management Agency: National Flood Insurance Program reform .....		45	119	225	335	483	649	704	778	834	909	1,207	5,081
TSA: Aviation passenger security fee increase .....		200	1,139	1,410	1,675	1,950	2,235	2,279	2,324	2,370	2,417	6,374	17,999
<b>Department of Labor</b>													
Pension Benefit Guaranty Corporation: Premium increases .....			81	1,828	2,275	2,316	2,067	1,713	1,616	1,874	2,210	6,500	15,980
<i>Offsetting receipts</i>													
<b>Department of Agriculture</b>													
Food Safety and Inspection Service: User charges .....		13	13	13	13	13	13	13	13	13	13	65	130
Grain, Inspection, Packers, and Stockyards Administration: User charges ....		27	27	27	27	27	27	27	27	27	27	135	270
Animal and Plant Health Inspection Service: User charges .....		20	27	27	28	29	30	31	32	33	34	131	291
Natural Resource Conservation Service: User charges .....		22	22	22	22	22	22	22	22	22	22	110	220
<b>Department of Health and Human Services</b>													
Centers for Medicare and Medicaid Services (CMS): Income-related premium increase under Medicare Parts B and D .....						1,430	2,220	2,600	5,137	7,087	9,098	1,430	27,572
CMS: Medicare Part B premium surcharge .....						80	200	330	480	640	800	80	2,530
<b>Department of the Interior</b>													
BSEE and BLM: Fee on non-producing Federal oil and gas leases .....		13	29	42	55	67	82	99	115	132	149	206	783
BLM: Repeal of Energy Policy Act fee prohibition and mandatory permit funds .....			18	18								36	36
BLM: Reform of Hardrock Mineral Production on Federal Lands .....			2	4	5	5	6	6	11	17	24	16	80
<b>Department of Labor</b>													
ETA: Foreign labor certification fee .....		3	18	18	18	18	18	18	18	18	18	75	165
<b>Environmental Protection Agency</b>													
Pesticide user charges .....		73	80	87	89	93	96	99	102	106	108	422	933
Premanufacture notice user charges .....		4	8	8	8	8	8	8	8	8	8	36	76
Hazardous waste electronic manifest system .....				6	4	3	3	3	3	3	3	13	28
<b>Federal Communications Commission</b>													
Wireless Innovation and Infrastructure Initiative .....		-429	3,570	7,719	5,045	929	-1,132	-162	419	-4	224	16,834	16,179
Spectrum license fee authority .....	50	200	300	425	550	550	550	550	550	550	550	2,025	4,775
Subtotal, mandatory user charge proposals .....	50	589	6,076	12,858	11,414	9,587	8,898	10,392	13,995	16,412	19,480	40,524	109,701
Subtotal, user charge proposals that are offsetting collections and offsetting receipts .....	50	2,252	8,337	15,536	14,521	13,087	12,794	14,577	18,498	21,279	24,732	53,733	145,613
<b>GOVERNMENTAL RECEIPTS</b>													
<b>Department of Energy</b>													
Reauthorize special assessment on domestic nuclear facilities .....		200	204	208	212	217	221	226	231	235	240	1,041	2,194
<b>Department of the Interior</b>													
Migratory bird hunting and conservation stamp fees .....		14	14	14	14	14	14	14	14	14	14	70	140
<b>Department of Transportation:</b>													
Federal Aviation Administration: Mandatory surcharge for air traffic services .....		647	668	692	719	744	767	783	798	813	829	3,470	7,460
<b>Corps of Engineers - Civil Works</b>													
Reform inland waterways funding .....		82	113	113	113	113	113	113	113	113	114	534	1,100
Subtotal, governmental receipts user charge proposals .....		943	999	1,027	1,058	1,088	1,115	1,136	1,156	1,175	1,197	5,115	10,894
<b>Total, user charge proposals .....</b>	<b>50</b>	<b>3,195</b>	<b>9,336</b>	<b>16,563</b>	<b>15,579</b>	<b>14,175</b>	<b>13,909</b>	<b>15,713</b>	<b>19,654</b>	<b>22,454</b>	<b>25,929</b>	<b>58,848</b>	<b>156,507</b>

\* Indicates an amount of \$500,000 or less.

<sup>1</sup> A positive sign indicates an increase in collections.

<sup>2</sup> Proposed legislation was transmitted to Congress on January 13, 2012.

<sup>3</sup> Budgetary effects of the fee increase are displayed, which include savings to the Department of Defense due to changes in behavioral assumptions.



2013 and \$12.1 billion over the 10-year budget horizon. The catastrophic cap adjustments include indexing the cap and excluding all enrollment fees from the cap.

### Department of Health and Human Services

*Food and Drug Administration (FDA): Generic drug review activities fees.* Generic drugs play an important role in reducing the cost of and increasing access to pharmaceuticals. The Budget includes a proposal for a new charge to generate additional resources in support of FDA's generic drug review activities. Similar to the purpose served by FDA's current prescription drug charges, the proposed generic drug charge would be used to improve review times and reduce the current backlog of applications.

*FDA: Biosimilar review fee.* The Affordable Care Act established a new regulatory pathway for generic biologics, also known as biosimilars, to be approved and authorized the FDA to work with the industry to develop a new fee program. The Budget includes a proposal for a new fee to support FDA's biosimilar review activities, thereby allowing the public to benefit from affordable and lifesaving biosimilar products.

*FDA: Reinspection fee for medical products.* FDA conducts post-market inspections of manufacturers of human drugs, biologics, animal drugs, and medical devices to assess their compliance with Good Manufacturing Practice and other regulatory requirements. The Budget includes a proposal to enable FDA to assess fees for follow-up re-inspections that are required when violations are found during initial inspections.

*FDA: Food facilities registration and inspection fees.* This proposed fee finances activities that support the safety and security of America's food supply and help meet the requirements of the FDA Food Safety Modernization Act.

*FDA: International courier fees.* The volume of imports, predominantly medical products, being brought into the United States by international couriers is growing substantially. To ensure the safety of these FDA-regulated products through increased surveillance efforts, the Budget includes a new charge to international couriers.

*FDA: Cosmetic facility registration fees.* FDA promotes the safety of cosmetics and other health and beauty products. The Budget includes a new facility registration fee for cosmetic and other health and beauty product facilities that will improve FDA's capacity to promote greater safety and understanding of these products.

*FDA: Food contact substances fee.* Food contact substances include components of food packaging and food processing equipment that come in contact with food. This new fee will allow FDA to promote greater safety and understanding of the products that come into contact with food when used.

*Health Resources and Services Administration: 340B Pharmacy Affairs fee.* To improve the administration and oversight of the 340B Drug Discount Program, the Budget includes a new charge to those entities participating in the program.

*Substance Abuse and Mental Health Services Administration: Data request and publication request fee.*

This new fee will allow SAMHSA to perform special data analysis and material publication services for entities that are not current grantees.

### Department of Homeland Security

*Transportation Security Administration (TSA): Aviation passenger security fee increase.* Since its establishment in 2001, under the Aviation and Transportation Security Act, the aviation passenger security fee has been limited to \$2.50 per passenger enplanement with a maximum fee of \$5.00 per one-way trip. This fee covers less than half of TSA's aviation security costs, which have risen over the years while the fee has remained the same. The Budget proposes to replace the current "per-enplanement" fee structure with a "per one-way trip" fee structure so that passengers pay the fee only one time when traveling to their destination. It also removes the current statutory fee limit and replaces it with a statutory fee minimum of \$5.00 in 2013, with annual incremental increases of 50 cents from 2014 to 2018, resulting in a fee of \$7.50 in 2018 and thereafter. The proposed fee would increase collections by an estimated \$25.5 billion over 10 years. Of this amount, \$7.5 billion will be applied to increase offsets to the discretionary costs of aviation security and the remaining \$18 billion will be treated as mandatory savings and deposited in the general fund for deficit reduction.

*Customs and Border Protection (CBP): Inspection services fee.* The Budget includes a proposal to allow the Commissioner of Customs and Border Protection (CBP) to approve requests from interested parties to reimburse CBP for enhanced inspectional services. Under current law, 19 U.S.C. 58b, CBP is authorized to receive reimbursement only if the Secretary of Homeland Security determines that the volume or value of business cleared through the facility at issue is insufficient to justify the availability of CBP services and if the governor of the State in which the facility is located approves such designation. The proposed legislation would authorize CBP to (1) receive reimbursement from corporations, government agencies, and other interested parties for inspection services in the air, land and sea environments at both the domestic and foreign locations; (2) receive reimbursement at international and landing rights airports that already receive inspection services; and (3) collect reimbursable expenses including salaries, benefits, temporary duty costs, relocation and, as applicable, housing, infrastructure, equipment and training. This would allow CBP to provide services to requesting parties that it could not provide in the absence of reimbursement.

### Department of the Interior

*Bureau of Safety and Environmental Enforcement (BSEE): Outer Continental Shelf (OCS) oil and gas lease inspection fee.* The Budget continues 2012 appropriations language to charge OCS inspection fees on oil and gas facilities that are subject to inspection by BSEE. The fees are based on the frequency and complexity of certain

categories of inspections, with fees charged for drilling rigs, which are now subject to enhanced oversight based on lessons learned in the aftermath of the BP Deepwater Horizon oil spill. The overall cost of maintaining and overseeing the OCS inspection program has increased due to the need for greater oversight of industry operations. In addition, inspection costs rise as companies extend oil and gas exploration and production efforts into deeper waters; additional miles must be flown, aircraft requirements increase, and the time for travel and inspection increases as facilities become increasingly complex. The proposed fees will generate approximately \$65 million in 2013, up from \$62 million in 2012, thereby requiring OCS energy developers, rather than taxpayers, to cover roughly the full cost of compliance inspections.

*Bureau of Land Management (BLM): Public lands oil and gas lease inspection fees.* The Budget includes appropriations language to charge inspection fees to oil and gas facilities that are subject to inspection by BLM. The fees would be based on the number of oil and gas wells per facility, providing for costs to be shared equitably across the industry. According to agency data, BLM currently spends more than \$40 million on managing the compliance inspection program. Inspection costs include, among other things, the salaries and travel expenses of inspectors. In 2013, the Budget proposes a \$10 million increase in funding to strengthen the BLM inspections and enforcement program, with these costs to be offset by higher fees on industry users. In addition, in 2013, the Budget proposes to charge industry users fees to offset \$38 million in existing inspection and enforcement program costs, resulting in a \$38 million reduction in general fund appropriations for BLM. The proposed fees will generate approximately \$48 million in 2013, thereby requiring energy developers on Federal lands to fund the majority of compliance costs incurred by BLM.

*BLM: Grazing administrative processing fee.* The Budget includes appropriations language for a three-year pilot project to allow BLM to recover some of the costs of issuing grazing permits/leases on BLM lands. BLM would charge a fee of \$1 per Animal Unit Month, which would be collected along with current grazing fees. The fee would allow BLM to address pending applications for grazing permit renewals. BLM would promulgate regulations for the continuation of the grazing administrative fee as a cost recovery fee after the pilot expires.

### Department of Labor

*Mine Safety and Health Administration (MSHA): Rock dust analysis fee.* MSHA conducts rock dust sampling and analyses to determine whether mines are in compliance with regulations intended to prevent the build-up of combustible dust. The Administration proposes to establish a fee on mine operators to fund these activities.

*Employment and Training Administration (ETA): National Agricultural Workers Survey fee.* ETA conducts the National Agricultural Workers Survey, which collects information annually about the demographic, employment, and health characteristics of the U.S. crop

labor force. The information is obtained directly from farm workers through face-to-face interviews. The Administration proposes to charge non-Federal entities on a case-by-case basis the cost of conducting specifically requested data collection or analysis. For example, State and local governments, educational institutions, or non-profit organizations may pay a fee to fund the addition of a question to the standard survey.

### Department of State

*Western Hemisphere Travel Initiative surcharge extension.* The Administration proposes to extend the authority for the Department of State to collect the Western Hemisphere Travel Initiative surcharge for one year, through September 30, 2013. The surcharge was initially enacted by the Passport Services Enhancement Act of 2005 (P.L. 109-167) to cover the Department's costs of meeting increased demand for passports, which resulted from the implementation of the Western Hemisphere Travel Initiative.

*Border Crossing Card fee increase.* The Budget includes a proposal to increase certain Border Crossing Card (BCC) fees. The proposal would allow the fee charged for BCC minor applicants to be set administratively rather than statutorily. Administrative fee setting will allow the fee charged BCC applicants to better reflect the associated cost of service, similar to other fees charged for consular services. The proposal would set the BCC fee for minors equal to one half the fee for adults by amending current law, which sets the fee at \$13. Annual BCC fee collections are projected to increase by \$17 million (from \$4 million to \$21 million) per year beginning in 2013 as a result of this change.

### Department of Transportation

*Federal Railroad Administration (FRA): Railroad safety inspection fee.* The FRA establishes and enforces safety standards for U.S. railroads. FRA's rail safety inspectors work in the field and oversee railroads' operating and management practices. The Administration is proposing that, starting in 2013, the railroads cover the cost of FRA's field inspections because railroads benefit directly from Government efforts to maintain high safety standards. The proposed fee would be similar to existing charges collected from other industries regulated by Federal safety programs.

### Commodity Futures Trading Commission (CFTC)

*CFTC fee:* After transmittal of the Budget, the Administration will propose an amendment to the Commodity Exchange Act authorizing the CFTC to collect fees from its regulated community equal to the agency's annual appropriation. This will make CFTC funding more consistent with the funding mechanisms in place for all of the other Federal financial regulators. Upon enactment of this fee authorization, the Administration will submit a

budget amendment reflecting CFTC's \$308 million in new budget authority fully offset by fees.

## Environmental Protection Agency (EPA)

*Energy Star product fees.* The Administration proposes to start collecting fees from product manufacturers who seek to label their products under EPA's Energy Star program. Since 1992, the Energy Star label has served as an indicator of energy efficiency, helping consumers and businesses select qualifying products and, increasingly, Energy Star products have qualified for special rebates, tax exemptions or credits, and procurement preferences. Fee collection would start in 2014 after EPA undertakes a rulemaking process to determine products to be covered by fees and the level of fees, and to ensure that a fee system would not discourage manufacturers from participating in the program or result in a loss of environmental benefits.

### 2. Offsetting receipts

## Department of Transportation

*Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline design review fees.* The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 (P.L. 112-90) established a new fee for companies engaged in the design, permitting, and construction of new pipeline projects. Unfortunately, because the Act applies the new fees only to projects costing at least \$2.5 billion, PHMSA does not expect the new fee authority to be used in the foreseeable future. The Administration proposes to collect new fees in 2013 from companies engaged in new pipeline projects of all sizes, even those costing less than \$2.5 billion. The fees will be used to offset some of the costs incurred by PHMSA in the review of new construction projects.

*PHMSA: Hazardous materials special permits and approvals fees.* The Administration proposes to collect new fees from companies and individuals involved in the transport of hazardous materials who seek waivers from the Hazardous Materials Regulations. The fees will offset some of the PHMSA's costs associated with the special permit and approvals processes.

## B. Mandatory User Charge Proposals

### 1. Offsetting collections

## Department of Agriculture (USDA)

*Biobased labeling fee.* In 2011, USDA authorized the use of a label for biobased products that producers can use in advertising their products. To ensure the integrity of the label, the Budget requests authority for USDA to: (1) impose civil penalties on companies who misuse the label and (2) assess each producer who applies for the label a \$500 fee to fund a program audit. This fee, which will begin to be collected once authorizing legislation is enacted, has been

given broad support by potential users who commented on the label's proposed rule, which was issued in May 2010.

## Department of Defense

*TRICARE pharmacy benefit co-payment increase.* As discussed above in the section on discretionary user charge proposals, the Budget includes a proposal to encourage the use of less expensive mail order pharmacies and military treatment facility pharmacies. This proposal would increase the prescription drug co-payments for active duty families and all retirees regardless of the age of the beneficiary and yield \$10.5 billion in savings in the MERHCF over the 10-year budget horizon and \$0.1 billion in mandatory savings for the Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

*TRICARE-For-Life (TFL) enrollment fee.* The Budget includes a proposal to charge age 65 and older military retirees and their families a modest annual premium, based on annual retirement pay, for TFL coverage. These annual fees would be phased in over four years and then indexed, and would yield \$5.7 billion in mandatory savings in the MERHCF over the 10-year budget horizon and \$0.2 billion in mandatory savings for the Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration. In addition, the proposal would reduce accrual costs by \$404 million in 2013 and \$5.1 billion over the 10-year budget horizon; these costs are classified as discretionary and result in reduced contributions to the MERHCF.

## Department of Homeland Security

*Federal Emergency Management Agency: National Flood Insurance Program (NFIP) reform.* Currently, there are 1.2 million NFIP properties (20 percent of all insured properties) that are charged premiums well below the actuarial value of the insured liability. On average (including subsidized and unsubsidized policies), NFIP premium collections cover approximately 70 percent of the actuarial value of the insured liability. To address this issue, the Administration supports the proposal as passed by the House in H.R. 1309, which would impact approximately 375,000 (or 30 percent) of the 1.2 million subsidized policies. The proposal would increase premiums over five years for those subsidized properties that are non-residential or non-primary residences, residences sold to new owners, or severe repetitive loss properties. This proposal would generate about \$700 million in additional premium revenue over five years and approximately \$5.1 billion over 10 years.

*TSA: Aviation passenger security fee increase.* As discussed above in the section on discretionary user charge proposals, the budget includes a proposal to increase the aviation passenger security fee by 50 cents per year for five years beginning in 2014. The fee would be \$7.50 per one-way trip beginning in 2017 and would generate \$18 billion in mandatory collections over the 10-year budget window, which would be deposited in the general fund for deficit reduction.



## Department of Labor

*Pension Benefit Guaranty Corporation (PBGC): Premium increases.* The Deficit Reduction Act of 2005 and the Pension Protection Act of 2006 made significant structural changes to the Nation's pension and pension insurance systems, but did not address fully the long-term financial challenges facing PBGC. Further reforms are needed to address the current \$26 billion gap between PBGC's liabilities and assets. The Administration proposes to give PBGC's Board the authority to adjust the premiums companies pay and to direct PBGC to account for the risk plans pose to PBGC. Better aligning risk with premium levels will encourage high-risk companies to fully fund their employees' promised pension benefits and will improve the solvency of PBGC. To ensure that these reforms are phased in only after challenging economic times have passed, the Budget calls for giving the PBGC Board premium setting authority beginning in 2014.

### 2. Offsetting receipts

## Department of Agriculture

*Food Safety and Inspection Service (FSIS): Performance and other charges.* Through a variety of activities, including slaughter and processing plant inspections, FSIS ensures that meat, poultry, and egg products are safe, wholesome, and correctly labeled and packaged. The Budget includes a proposal for two new charges. The performance based fee would recover the costs incurred for additional inspections and related activities, such as product recalls, that become necessary because of the performance of a covered establishment or plant. This fee would be charged each time one of these incidents occurs. The food safety services fee would recover a part of the cost, as determined by the Secretary, of providing FSIS related services at covered establishments and plants, and would be based on facility size.

*Grain Inspection, Packers, and Stockyards Administration (GIPSA): User charges.* The Administration proposes to establish a fee to cover the cost associated with GIPSA's standardization activities and a licensing fee to cover the cost associated with administering the Packers and Stockyards Act.

*Animal and Plant Health Inspection Service (APHIS): Inspection and licensing charges.* The Administration proposes to establish charges for: (1) animal welfare inspections for animal research facilities, carriers, and in-transit handlers of animals, (2) licenses for individuals or companies who seek to market a veterinary biologic, and (3) reviews and inspections that may allow APHIS to issue permits that acknowledge that regulated entities are providing sufficient safeguards in the testing of biotechnologically derived products.

*Natural Resources Conservation Service (NRCS): User charges.* NRCS assists farmers and ranchers in developing and implementing plans to protect, conserve, and enhance natural resources (soil, water, air, plants, and wildlife habitat). The Budget includes a proposal to begin charging for general conservation planning services.

## Department of Health and Human Services

*Centers for Medicare and Medicaid Services (CMS): Income-related premium increase under Medicare Parts B and D.* The Budget contains a proposal to increase income-related premiums under Medicare Parts B and D by 15 percent beginning in 2017 and to maintain the income thresholds associated with income-related premiums until 25 percent of beneficiaries under Parts B and D are subject to these premiums. This will help improve the financial stability of the Medicare program by reducing the Federal subsidy of Medicare costs for those beneficiaries who can most afford them.

*CMS: Medicare Part B premium surcharge.* Medigap policies are private insurance policies that provide supplemental coverage for certain costs not covered by Medicare such as co-pays and deductibles. Medigap policies with low cost-sharing requirements, those that provide nearly first-dollar Medigap coverage, reduce the effectiveness of Medicare cost-sharing provisions intended to promote efficient health care choices. The Budget proposes a Part B premium surcharge on new Medicare beneficiaries beginning in 2017 who purchase Medigap policies with particularly low cost-sharing requirements. The surcharge would be equal to approximately 15 percent of the average Medigap premium or 30 percent of the Part B premium.

## Department of the Interior

*BSEE and BLM: Fee on non-producing Federal oil and gas leases.* The Budget includes a proposal that is part of a broader Administration initiative to encourage energy development on lands already leased for development. A new \$4 per acre fee on non-producing Federal leases on Federal lands and waters would provide a financial incentive for oil and gas companies to either get their leases into production or relinquish them so that the tracts can be re-leased to and developed by new parties. The proposed \$4 per acre fee would apply to new leases and would be indexed annually. In October 2008, the Government Accountability Office (GAO) issued a report critical of past efforts by the Department of the Interior to ensure that companies diligently develop their Federal leases. Although the GAO report focused on administrative actions that the Department could undertake, this proposal requires legislative action. This proposal is similar to other non-producing fee proposals considered by the Congress in the last several years.

*BLM: Repeal of Energy Policy Act fee prohibition and mandatory permit funds.* Beginning in 2014, the Administration proposes to repeal a provision of the Energy Policy Act that prohibits BLM from charging fees for its services. The Budget proposal would permit BLM to charge a fee for oil and gas permit processing, consistent with recent appropriations provisions, generating offsetting collections that would permit a corresponding reduction in BLM's discretionary funding. In 2013, the Administration proposes to continue the oil and gas permit processing fees imposed by appropriations language, which overrides the Energy Policy Act fee prohibition.



*BLM: Reform of Hardrock Mineral Production on Federal Lands.* The Administration proposes to institute a leasing process under the Mineral Leasing Act of 1920 for certain minerals (gold, silver, lead, zinc, copper, uranium, and molybdenum) currently covered by the General Mining Law of 1872. After enactment, mining for these metals on Federal lands would be governed by the new leasing process and subject to annual rental payments and a royalty of not less than 5 percent of gross proceeds. Half of the receipts would be distributed to the States in which the leases are located and the remaining half would be retained by the Treasury. Existing mining claims would be exempt from the change to the leasing system, but would be subject to increases in the annual maintenance fees under the General Mining Law of 1872.

### Department of Labor (DOL)

*ETA: Foreign labor certification fee.* Under the Immigration and Nationality Act, employers seeking to hire foreign workers must certify that qualified U.S. workers are not available for the job being offered to a foreign worker and that such hiring would not affect adversely the wages or working conditions of similarly employed U.S. workers. DOL must then approve the certification. The Administration proposes to establish a cost-based fee to be paid by employers requesting permanent labor certifications and H-2B temporary visas for non-agricultural temporary workers and to have the fees currently collected for H-2A temporary agricultural visas credited to a DOL account rather than to the general fund of the Treasury.

### Environmental Protection Agency (EPA)

*Pesticide user charges.* All pesticides marketed in the United States must be registered with EPA. Presently, EPA collects fees from entities seeking to register their pesticides and from entities seeking to maintain their registrations. The Administration proposes to better cover the costs of EPA's pesticide registration services by increasing the amount charged for currently authorized pesticide user charges. Amendments to the Federal Insecticide, Fungicide, and Rodenticide Act require EPA to review all registered pesticides on a 15-year cycle to ensure that registrations reflect current science. The Administration's proposed increases to registration and maintenance fees are intended to cover the increased costs posed by these reviews and a greater portion of overall program costs.

*Premanufacture notice user charges.* EPA presently collects fees from chemical manufacturers seeking to market new chemicals. These fees are authorized by the Toxic Substances Control Act and are subject to a statutory cap. The Administration proposes to lift the cap so that EPA can recover a greater portion of the program cost.

*Hazardous waste electronic manifest system.* The Resource Conservation and Recovery Act (RCRA) requires transporters of hazardous waste to document information on the waste's generator, destination, quantity, and route. Currently, the tracking system relies on paper copies that are not frequently

digitized for data analysis or quality control. The Budget includes a proposal to collect fees from users of a new electronic manifesting system beginning in 2015. Use of electronic records will allow EPA to more efficiently monitor and analyze future waste shipments. Full implementation of the electronic system may reduce industry reporting costs under RCRA by \$76 million to \$124 million annually.

### Federal Communications Commission (FCC)

*Wireless Innovation and Infrastructure Initiative.* The President's spectrum initiative proposes to reallocate the use of up to 500 megahertz of Federal agency and commercial spectrum bands over the next 10 years in order to increase Americans' access to wireless broadband. The Administration proposes to extend FCC auction authority and to provide new authority to hold incentive auctions, whereby current license holders may participate in an auction and receive a share of proceeds. Also, the Administration proposes to provide enhanced flexibility, through the Spectrum Reallocation Fund, to help agencies repurpose and reallocate from spectrum. Finally, the President's initiative would allow spectrum licenses for predominantly domestic satellite services to be assigned via competitive bidding, as they had been prior to a 2005 court decision. In total, this initiative is expected to raise more than \$16 billion by 2022.

*Spectrum license fee authority.* To promote efficient use of the electromagnetic spectrum, the Administration proposes to provide the FCC with new authority to use other economic mechanisms, such as fees, as a spectrum management tool. The Commission would be authorized to set charges for unauctioned spectrum licenses based on spectrum-management principles. Fees would be phased in over time as part of an ongoing rulemaking process to determine the appropriate application and level for fees.

## C. User Charge Proposals that are Governmental Receipts

### Department of Energy

*Reauthorize special assessment on domestic nuclear facilities.* The Budget includes a proposal to reauthorize the special assessment on domestic utilities for deposit into the Uranium Enrichment Decontamination and Decommissioning Fund. Established in 1992, the Fund pays, subject to appropriations, the decontamination and decommissioning costs of the Department of Energy's gaseous diffusion plants in Tennessee, Ohio, and Kentucky. Additional resources, from the proposed special assessment, are required due to higher-than-expected cleanup costs.

### Department of the Interior

*Migratory bird hunting and conservation stamp fees.* Federal Migratory Bird Hunting and Conservation Stamps, commonly known as "duck stamps," were originally created in 1934 as the Federal licenses required for

hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps (\$15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas.<sup>8</sup> The land and water interests located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 20 years. The Administration proposes to increase these fees to \$25 per stamp per year, effective beginning in 2013.

**Department of Transportation**

*Federal Aviation Administration: Mandatory surcharge for air traffic services.* All flights that use controlled air space require a similar level of air traffic services. However, commercial and general aviation can pay very different aviation fees for those same services. To more equitably distribute the cost of air traffic services across the aviation user community, the Administration proposes to establish a new surcharge for air traffic services of \$100 per flight. Military aircraft, public aircraft, piston

aircraft, air ambulances, aircraft operating outside of controlled airspace, and Canada-to-Canada flights would be exempt. The surcharge would be effective for flights beginning after September 30, 2012.

**Corps of Engineers—Civil Works**

*Reform inland waterways funding.* The Administration proposes legislation to reform the laws governing the Inland Waterways Trust Fund, including increasing the revenue paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this trust fund. The additional revenue will enable a more robust level of funding for safe, reliable, highly cost-effective, and environmentally sustainable waterways, and contribute to economic growth. In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks and dams, and other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs.

<sup>8</sup> By law, duck stamp proceeds are available for use without further action by Congress, and, in this way, are similar to offsetting collections.

**Table 16–5 OFFSETTING RECEIPTS BY TYPE**  
(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>I. INTRAGOVERNMENTAL RECEIPTS</b>												
<b>A. On Budget</b>												
<b>1. Interfund Receipts</b>												
<b>a. Federal Fund Payments to Trust Funds</b>												
<b>i. Distributed by Agency</b>												
<b>Contributions to retirement and insurance programs</b>												
Military retirement fund .....	61,404	64,751	67,179	69,698	72,311	75,022	77,837	80,755	83,784	86,925	90,186	93,567
Supplementary medical insurance .....	225,179	214,872	255,203	281,602	296,035	322,509	338,507	355,384	389,636	425,373	461,718	511,238
Proposed Legislation (Non-PAYGO) .....			-4,565	-10,499	-12,239	-14,094	-18,121	-21,690	-24,158	-30,117	-36,147	-42,547
Hospital insurance .....	15,761	19,178	21,617	23,510	26,133	29,035	32,188	35,366	38,490	41,832	45,398	49,153
Proposed Legislation (Program Integrity) .....		114										
Railroad social security equivalent benefit fund .....	151	264	211	233	253	274	302	330	358	387	417	449
Civilian supplementary retirement contributions .....	31,666	32,376	32,297	32,805	33,517	34,428	35,141	35,756	36,373	36,890	37,210	37,810
Proposed Legislation (Non-PAYGO) .....			-38	-118	-242	-377	-524	-684	-857	-1,045	-1,249	-1,468
Unemployment insurance .....	51,853	28,317	1,160	1,096	1,037	978	935	907	912	938	967	1,002
Proposed Legislation (PAYGO) .....		20,734	19,351									
Other contributions .....	738	656	664	655	631	619	607	600	598	591	588	583

**Table 16-5 OFFSETTING RECEIPTS BY TYPE—Continued**  
(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Rail industry pension fund .....	547	358	333	344	353	362	370	376	381	385	388	390
Subtotal, Contributions to retirement and insurance programs .....	387,299	381,620	393,412	399,326	417,789	448,756	467,242	487,100	525,517	562,159	599,476	650,177
<b>Other miscellaneous transactions</b>												
Miscellaneous payments .....	2,704	2,472	2,454	2,483	2,540	2,578	2,620	2,664	2,710	2,758	2,804	2,856
Proposed Legislation (PAYGO) .....	.....	.....	38,486	38,486	38,486	38,486	38,486	38,486	.....	.....	.....	.....
Other .....	51	151	150	150	150	150	150	150	150	.....	.....	.....
Subtotal, Other miscellaneous transactions .....	2,755	2,623	41,090	41,119	41,176	41,214	41,256	41,300	2,860	2,758	2,804	2,856
Subtotal, Distributed by Agency ..	390,054	384,243	434,502	440,445	458,965	489,970	508,498	528,400	528,377	564,917	602,280	653,033
<b>ii. Undistributed by Agency</b>												
<b>Employer share, employee retirement (on-budget)</b>												
Civil service retirement and disability insurance .....	21,018	20,987	21,262	21,564	22,098	22,923	23,832	24,750	25,680	26,618	27,565	28,518
Proposed Legislation (Non-PAYGO) .....	.....	.....	-5	-17	-28	-40	-51	-67	-83	-100	-116	-134
Hospital insurance (contribution as employer) .....	3,384	3,516	3,649	3,766	3,924	4,118	4,265	4,416	4,634	4,831	5,037	5,288
Military retirement fund .....	25,734	27,310	27,794	26,515	26,241	26,317	26,117	26,782	27,536	28,308	29,101	29,916
Other federal employees retirements .....	307	315	326	335	345	355	365	376	387	399	411	423
Postal Service contributions to FHI .....	641	583	590	612	637	663	691	719	749	779	811	845
CSRDI from Postal Service .....	2,182	3,874	3,933	4,036	4,203	4,391	4,588	4,820	5,002	5,182	5,361	5,540
Subtotal, Employer share, employee retirement (on-budget) .....	53,266	56,585	57,549	56,811	57,420	58,727	59,807	61,796	63,905	66,017	68,170	70,396
<b>Other miscellaneous transactions</b>												
Interest received by on-budget trust funds .....	72,030	67,794	64,583	63,870	65,487	68,251	73,288	78,275	83,887	89,118	93,780	98,962
Proposed Legislation (Non-PAYGO) .....	.....	2	-111	-202	-23	359	746	1,265	2,262	3,269	4,282	5,072
Subtotal, Other miscellaneous transactions .....	72,030	67,796	64,472	63,668	65,464	68,610	74,034	79,540	86,149	92,387	98,062	104,034
Subtotal, Undistributed by Agency .....	125,296	124,381	122,021	120,479	122,884	127,337	133,841	141,336	150,054	158,404	166,232	174,430
<b>Subtotal, Federal Fund Payments to Trust Funds ..</b>	<b>515,350</b>	<b>508,624</b>	<b>556,523</b>	<b>560,924</b>	<b>581,849</b>	<b>617,307</b>	<b>642,339</b>	<b>669,736</b>	<b>678,431</b>	<b>723,321</b>	<b>768,512</b>	<b>827,463</b>
<b>b. Trust fund Payments to Federal Funds</b>												
<b>i. Distributed by Agency</b>												
<b>Personnel benefits</b>												
Quinquennial adjustment of military service credits .....	116	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Subtotal, Personnel benefits .....	116	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Other miscellaneous transactions</b>												
Other .....	2,604	2,497	2,425	2,304	2,152	2,130	2,121	2,119	1,960	1,943	1,949	1,982
Proposed Legislation (PAYGO) .....	.....	.....	3	3	3	3	3	3	3	3	3	3
Subtotal, Other miscellaneous transactions .....	2,604	2,497	2,428	2,307	2,155	2,133	2,124	2,122	1,963	1,946	1,952	1,985
Subtotal, Distributed by Agency ..	2,720	2,497	2,428	2,307	2,155	2,133	2,124	2,122	1,963	1,946	1,952	1,985





**Table 16-5 OFFSETTING RECEIPTS BY TYPE—Continued**  
(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Payment to railroad retirement (from off-budget) .....	6,319	6,300	6,305	6,802	6,745	6,965	6,899	7,108	7,188	7,117	6,826	7,004
Subtotal, Personnel benefits .....	6,319	6,300	6,305	6,802	6,745	6,965	6,899	7,108	7,188	7,117	6,826	7,004
<b>Other miscellaneous transactions</b>												
Other .....	3	1	53	108	117	127	137	148	161	1	1	1
Subtotal, Other miscellaneous transactions .....	3	1	53	108	117	127	137	148	161	1	1	1
Subtotal, Distributed by Agency ..	6,322	6,301	6,358	6,910	6,862	7,092	7,036	7,256	7,349	7,118	6,827	7,005
<b>Subtotal, Trust Intrafund Receipts .....</b>	<b>6,322</b>	<b>6,301</b>	<b>6,358</b>	<b>6,910</b>	<b>6,862</b>	<b>7,092</b>	<b>7,036</b>	<b>7,256</b>	<b>7,349</b>	<b>7,118</b>	<b>6,827</b>	<b>7,005</b>
<b>Subtotal, On Budget .....</b>	<b>562,156</b>	<b>554,977</b>	<b>596,443</b>	<b>607,178</b>	<b>630,494</b>	<b>670,335</b>	<b>694,851</b>	<b>725,468</b>	<b>737,262</b>	<b>784,529</b>	<b>832,257</b>	<b>893,924</b>
<b>B. Off Budget</b>												
<b>1. Interfund Receipts</b>												
<b>a. Federal Fund Payments to Trust Funds</b>												
<b>i. Distributed by Agency</b>												
<b>Personnel benefits</b>												
Old-age, survivors and disability, insurance .....	101,993	77,314	32,543	34,717	38,577	42,735	47,176	51,425	55,679	60,220	65,004	70,102
Proposed Legislation (Non-PAYGO) .....	.....	62,720	28,915	.....	-61	35	14	7	2	1	.....	.....
Subtotal, Personnel benefits .....	101,993	140,034	61,458	34,717	38,516	42,770	47,190	51,432	55,681	60,221	65,004	70,102
Subtotal, Distributed by Agency ...	101,993	140,034	61,458	34,717	38,516	42,770	47,190	51,432	55,681	60,221	65,004	70,102
<b>ii. Undistributed by Agency</b>												
<b>Personnel benefits</b>												
Employer share, employee retirement (off-budget) .....	15,099	15,627	16,498	17,238	18,117	19,129	19,925	20,758	21,902	22,934	23,988	25,241
Subtotal, Personnel benefits .....	15,099	15,627	16,498	17,238	18,117	19,129	19,925	20,758	21,902	22,934	23,988	25,241
<b>Other miscellaneous transactions</b>												
Interest received by off-budget trust funds .....	115,981	112,596	108,837	106,817	106,225	106,001	107,764	110,776	113,590	116,828	118,544	120,047
Subtotal, Other miscellaneous transactions .....	115,981	112,596	108,837	106,817	106,225	106,001	107,764	110,776	113,590	116,828	118,544	120,047
Subtotal, Undistributed by Agency .....	131,080	128,223	125,335	124,055	124,342	125,130	127,689	131,534	135,492	139,762	142,532	145,288
<b>Subtotal, Federal Fund Payments to Trust Funds ...</b>	<b>233,073</b>	<b>268,257</b>	<b>186,793</b>	<b>158,772</b>	<b>162,858</b>	<b>167,900</b>	<b>174,879</b>	<b>182,966</b>	<b>191,173</b>	<b>199,983</b>	<b>207,536</b>	<b>215,390</b>
<b>Subtotal, Interfund Receipts ...</b>	<b>233,073</b>	<b>268,257</b>	<b>186,793</b>	<b>158,772</b>	<b>162,858</b>	<b>167,900</b>	<b>174,879</b>	<b>182,966</b>	<b>191,173</b>	<b>199,983</b>	<b>207,536</b>	<b>215,390</b>
<b>Subtotal, Off Budget .....</b>	<b>233,073</b>	<b>268,257</b>	<b>186,793</b>	<b>158,772</b>	<b>162,858</b>	<b>167,900</b>	<b>174,879</b>	<b>182,966</b>	<b>191,173</b>	<b>199,983</b>	<b>207,536</b>	<b>215,390</b>
<b>SUBTOTAL, INTRAGOVERNMENTAL RECEIPTS ...</b>	<b>795,229</b>	<b>823,234</b>	<b>783,236</b>	<b>765,950</b>	<b>793,352</b>	<b>838,235</b>	<b>869,730</b>	<b>908,434</b>	<b>928,435</b>	<b>984,512</b>	<b>1,039,793</b>	<b>1,109,314</b>
<b>II. NON-FEDERAL RECEIPTS</b>												
<b>A. On Budget</b>												
<b>1. Proprietary Receipts</b>												
<b>a. Federal Fund Receipts</b>												
<b>i. Distributed by Agency</b>												
<b>Fees and other charges for services and special benefits</b>												
Nuclear waste disposal revenues ...	914	765	783	793	798	802	803	803	803	803	803	803

**Table 16-5 OFFSETTING RECEIPTS BY TYPE—Continued**  
(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Other .....	4,427	4,439	4,597	4,617	4,635	4,691	4,714	4,735	4,826	4,897	4,973	5,081
Proposed Legislation (Non-PAYGO) .....				33	33	33	33	33	33	33	33	33
Proposed Legislation (PAYGO) .....			88	105	110	112	115	117	119	121	124	126
Subtotal, Fees and other charges for services and special benefits .....	5,341	5,204	5,468	5,548	5,576	5,638	5,665	5,688	5,781	5,854	5,933	6,043
<b>Interest</b>												
Interest on foreign loans and deferred foreign collections ....	59	59	59	55	55	55	55	55	55	55	55	55
Interest on deposits and loan accounts .....			11	252	669	1,083	1,197	1,209	1,206	1,206	1,203	1,197
Other interest .....	34,663	52,032	53,133	51,831	54,323	57,653	61,300	64,377	67,428	70,460	72,988	76,176
Dividends and other earnings ....	15,588	18,790	21,690	22,560	20,442	16,690	13,385	10,830	10,435	10,335	10,122	9,927
Subtotal, Interest .....	50,310	70,881	74,893	74,698	75,489	75,481	75,937	76,471	79,124	82,056	84,368	87,355
<b>Realization upon loans and investments</b>												
Negative subsidies and downward reestimates .....	118,286	67,676	32,641	28,616	23,294	18,849	15,705	12,653	11,054	10,881	11,085	11,330
Proposed Legislation (PAYGO) .....		-1,820	2,151	965	1,223	1,090	951	858	775	812	779	743
Other .....	52	65	67	68	69	69	69	69	69	69	69	69
Subtotal, Realization upon loans and investments .....	118,338	65,921	34,859	29,649	24,586	20,008	16,725	13,580	11,898	11,762	11,933	12,142
<b>Sale of Government property</b>												
Sale of land and other real property .....	143	247	330	224	228	227	235	241	248	262	266	270
Proposed Legislation (PAYGO) .....			5	10	20	30	30	30	30	30	30	30
Other sales of government property .....	117	98	49	21	8	8	8	8	8	8	8	8
Subtotal, Sale of Government property .....	260	345	384	255	256	265	273	279	286	300	304	308
<b>Sale of products</b>												
Sale of timber and other natural land products .....	235	197	143	150	149	151	210	212	214	217	218	221
Proposed Legislation (PAYGO) .....		-54	-55	-49	-49	-49	8	9	10	10	10	10
Sale of minerals and mineral products .....	3,530	44	45	46	46	46	47	48	50	50	53	54
Proposed Legislation (PAYGO) .....				2	4	5	5	6	6	11	17	24
Sale of power and other utilities ..	967	654	792	714	713	740	729	698	726	693	684	686
Other .....	144	145	132	145	149	134	149	153	137	152	157	140
Subtotal, Sale of products .....	4,876	986	1,057	1,008	1,012	1,027	1,148	1,126	1,143	1,133	1,139	1,135
<b>Other miscellaneous transactions</b>												
Royalties and rents .....	4,153	4,615	4,677	4,724	4,856	4,981	4,870	5,154	5,350	5,541	5,816	6,078
Proposed Legislation (PAYGO) .....			-50	-51	-2	-2	1		-1	-1	-2	-2
Recoveries and refunds .....	5,063	5,119	5,324	5,528	5,708	5,837	6,000	6,187	6,314	6,495	6,675	6,813
Proposed Legislation (PAYGO) .....			5	7	-42	-61	-86	-109	-138	-162	-162	-163
Gifts and contributions .....	7	8	8	8	8	8	8	8	8	8	8	8
Miscellaneous receipt accounts ..	3,249	3,327	4,018	4,613	5,275	5,863	6,370	6,794	7,145	7,456	7,711	7,938
Proposed Legislation (PAYGO) .....			21	21	21	21	21	21	21	21	21	21
Subtotal, Other miscellaneous transactions .....	12,472	13,069	14,003	14,850	15,824	16,647	17,184	18,055	18,699	19,358	20,067	20,693



**Table 16–5 OFFSETTING RECEIPTS BY TYPE—Continued**  
(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Military assistance program sales (trust funds) .....	23,947	25,475	27,743	29,508	27,592	25,628	24,037	22,923	22,211	21,783	21,520	21,520
Subtotal, Sale of Government property .....	23,947	25,475	27,743	29,508	27,592	25,628	24,037	22,923	22,211	21,783	21,520	21,520
<b>Other miscellaneous transactions</b>												
Recoveries and refunds .....	10,132	10,125	10,312	10,612	10,712	10,812	10,912	11,012	11,112	11,212	11,312	11,312
Gifts and contributions .....	310	254	264	247	249	249	249	249	249	249	249	249
Miscellaneous receipt accounts .....	92	94	100	100	104	110	115	121	127	133	141	148
Subtotal, Other miscellaneous transactions .....	10,534	10,473	10,676	10,959	11,065	11,171	11,276	11,382	11,488	11,594	11,702	11,709
Subtotal, Distributed by Agency .....	106,781	111,746	128,125	144,625	150,633	157,768	168,176	180,209	193,399	209,170	227,157	247,463
<b>Subtotal, Trust Fund Receipts ...</b>	<b>106,781</b>	<b>111,746</b>	<b>128,125</b>	<b>144,625</b>	<b>150,633</b>	<b>157,768</b>	<b>168,176</b>	<b>180,209</b>	<b>193,399</b>	<b>209,170</b>	<b>227,157</b>	<b>247,463</b>
<b>Subtotal, Proprietary Receipts .....</b>	<b>305,192</b>	<b>280,066</b>	<b>269,912</b>	<b>282,215</b>	<b>285,682</b>	<b>288,328</b>	<b>294,087</b>	<b>304,522</b>	<b>324,175</b>	<b>343,801</b>	<b>360,989</b>	<b>385,737</b>
<b>2. Offsetting Governmental Receipts</b>												
<b>a. Federal Fund Receipts</b>												
<b>i. Distributed by Agency</b>												
<b>Other miscellaneous transactions</b>												
Defense Cooperation .....	1	1	1	1	1	1	1	1	1	1	1	1
Regulatory Fees .....	7,497	8,096	8,174	8,230	8,303	8,360	8,457	8,547	8,625	8,728	8,829	6,424
Proposed Legislation (PAYGO) .....			3	18	24	22	21	21	21	21	21	21
Other .....	146	140	140	141	141	141	141	142	142	142	143	144
Proposed Legislation (PAYGO) .....			200	1,139	1,410	1,675	1,950	2,235	2,279	2,324	2,370	2,417
Subtotal, Other miscellaneous transactions .....	7,644	8,237	8,518	9,529	9,879	10,199	10,570	10,946	11,068	11,216	11,364	9,007
Subtotal, Distributed by Agency .....	7,644	8,237	8,518	9,529	9,879	10,199	10,570	10,946	11,068	11,216	11,364	9,007
<b>ii. Undistributed by Agency</b>												
<b>Other miscellaneous transactions</b>												
Spectrum auction proceeds .....		400	1,975	1,575								
Proposed Legislation (PAYGO) .....		50	-1,350	-1,250	425	550	550	550	900	900	850	850
Subtotal, Other miscellaneous transactions .....		450	625	325	425	550	550	550	900	900	850	850
Subtotal, Undistributed by Agency .....		450	625	325	425	550	550	550	900	900	850	850
<b>Subtotal, Federal Fund Receipts .....</b>	<b>7,644</b>	<b>8,687</b>	<b>9,143</b>	<b>9,854</b>	<b>10,304</b>	<b>10,749</b>	<b>11,120</b>	<b>11,496</b>	<b>11,968</b>	<b>12,116</b>	<b>12,214</b>	<b>9,857</b>
<b>b. Trust Fund Receipts</b>												
<b>i. Distributed by Agency</b>												
<b>Other miscellaneous transactions</b>												
Regulatory Fees .....	3	4	4	4	4	4	4	4	5	5	5	5
Proposed Legislation (PAYGO) .....			1,216	5,416	8,216	6,116	2,016					
Subtotal, Other miscellaneous transactions .....	3	4	1,220	5,420	8,220	6,120	2,020	4	5	5	5	5
Subtotal, Distributed by Agency .....	3	4	1,220	5,420	8,220	6,120	2,020	4	5	5	5	5
<b>Subtotal, Trust Fund Receipts ...</b>	<b>3</b>	<b>4</b>	<b>1,220</b>	<b>5,420</b>	<b>8,220</b>	<b>6,120</b>	<b>2,020</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>



**Table 16-5 OFFSETTING RECEIPTS BY TYPE—Continued**  
(In millions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Subtotal, Offsetting Governmental Receipts ....</b>	<b>7,647</b>	<b>8,691</b>	<b>10,363</b>	<b>15,274</b>	<b>18,524</b>	<b>16,869</b>	<b>13,140</b>	<b>11,500</b>	<b>11,973</b>	<b>12,121</b>	<b>12,219</b>	<b>9,862</b>
<b>Subtotal, On Budget .....</b>	<b>312,839</b>	<b>288,757</b>	<b>280,275</b>	<b>297,489</b>	<b>304,206</b>	<b>305,197</b>	<b>307,227</b>	<b>316,022</b>	<b>336,148</b>	<b>355,922</b>	<b>373,208</b>	<b>395,599</b>
<b>B. Off Budget</b>												
<b>1. Proprietary Receipts</b>												
<b>a. Trust Fund Receipts</b>												
<b>i. Distributed by Agency</b>												
<b>Fees and other charges for services and special benefits</b>												
Other .....	31	31	30	30	31	31	31	32	33	34	35	37
Subtotal, Fees and other charges for services and special benefits .....	31	31	30	30	31	31	31	32	33	34	35	37
<b>Other miscellaneous transactions</b>												
Recoveries and refunds .....	66	62	62	62	62	62	62	62	62	62	62	62
Subtotal, Other miscellaneous transactions .....	66	62	62	62	62	62	62	62	62	62	62	62
Subtotal, Distributed by Agency ..	97	93	92	92	93	93	93	94	95	96	97	99
<b>Subtotal, Proprietary Receipts .....</b>	<b>97</b>	<b>93</b>	<b>92</b>	<b>92</b>	<b>93</b>	<b>93</b>	<b>93</b>	<b>94</b>	<b>95</b>	<b>96</b>	<b>97</b>	<b>99</b>
<b>Subtotal, Off Budget .....</b>	<b>97</b>	<b>93</b>	<b>92</b>	<b>92</b>	<b>93</b>	<b>93</b>	<b>93</b>	<b>94</b>	<b>95</b>	<b>96</b>	<b>97</b>	<b>99</b>
<b>SUBTOTAL, NON-FEDERAL RECEIPTS .....</b>	<b>312,936</b>	<b>288,850</b>	<b>280,367</b>	<b>297,581</b>	<b>304,299</b>	<b>305,290</b>	<b>307,320</b>	<b>316,116</b>	<b>336,243</b>	<b>356,018</b>	<b>373,305</b>	<b>395,698</b>
<b>GRAND TOTAL OFFSETTING RECEIPTS .....</b>	<b>1,108,165</b>	<b>1,112,084</b>	<b>1,063,603</b>	<b>1,063,531</b>	<b>1,097,651</b>	<b>1,143,525</b>	<b>1,177,050</b>	<b>1,224,550</b>	<b>1,264,678</b>	<b>1,340,530</b>	<b>1,413,098</b>	<b>1,505,012</b>

## 17. TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93-344) requires that a list of “tax expenditures” be included in the budget. Tax expenditures are defined in the law as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” These exceptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

Identification and measurement of tax expenditures depends importantly on the baseline tax system against which the actual tax system is compared. The tax expenditure estimates presented in this chapter are patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time.

An important assumption underlying each tax expenditure estimate reported below is that other parts of the

Tax Code remain unchanged. The estimates would be different if tax expenditures were changed simultaneously because of potential interactions among provisions. For that reason, this chapter does not present a grand total for the estimated tax expenditures.

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2011–2017 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

A discussion of performance measures and economic effects related to the assessment of the effect of tax expenditures on the achievement of program performance goals is presented in Appendix A. This section is a complement to the Government-wide performance plan required by the Government Performance and Results Act of 1993.

### TAX EXPENDITURES IN THE INCOME TAX

#### Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of December 31, 2011. Expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 2011. The estimates are based on the economic assumptions from the Mid-session Review of the 2012 Budget.

The total revenue effects for tax expenditures for fiscal years 2011–2017 are displayed according to the Budget’s functional categories in Table 17–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures.<sup>1</sup> For the most part, the two concepts coincide. However, items treated as tax expenditures under the normal tax baseline, but not the reference tax law baseline, are indicated by the designation “normal tax method” in the tables. The revenue effects for these items are zero using the reference tax rules. The alternative baseline concepts are discussed in detail following the tables.

Table 17–2 reports the respective portions of the total revenue effects that arise under the individual and corporate income taxes separately. The location of the esti-

mates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the specific tax accounts through which the various provisions are cleared. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 17–3 ranks the major tax expenditures by the size of their 2013–2017 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 17–1 and 17–2, as well as to the descriptions below.

In the 2005 *Analytical Perspectives*, the treatment of capital gains was changed to exclude the portion of capital gains derived from corporate equity from the estimate of the tax expenditure for preferential tax rates on capital gains. In addition, the preferential rates on qualified dividend income that were enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003 were not identified as a tax expenditure. In this volume, the estimates reflect the pre-2005 methodology where no interaction effects among the various taxes are taken into account. For example, preferences under the personal income tax are evaluated in isolation of additional taxes that may apply under the corporate tax, the payroll tax, the estate tax, and excise taxes. The preferential rate on qualified dividends is identified as a tax expenditure.

<sup>1</sup> These baseline concepts are thoroughly discussed in Special Analysis G of the 1985 Budget, where the former is referred to as the pre-1983 method and the latter the post-1982 method.

### Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 17–1, 17–2, and 17–3 do not necessarily equal the increase in Federal revenues (or the change in the budget balance) that would result from repealing these special provisions, for the following reasons.

First, eliminating a tax expenditure may have incentive effects that alter economic behavior. These incentives can affect the resulting magnitudes of the activity or of other tax provisions or Government programs. For example, if capital gains were taxed at ordinary rates, capital gain realizations would be expected to decline, resulting in lower tax receipts. Such behavioral effects are not reflected in the estimates.

Second, tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax revenues associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the revenue costs from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the revenue cost from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force. In addition, the estimates reported in Table 17–1 are the totals of individual and corporate income tax revenue effects reported in Table 17–2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 17–1 should be regarded as approximations.

### Present-Value Estimates

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 17–4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming revenues that are received due to deferrals of taxes from prior years. Although such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals have a real cost to the Government. Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received.

Discounted present-value estimates of revenue effects are presented in Table 17–4 for certain provisions that involve tax deferrals or other long-term revenue effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the revenue effects, net of future tax payments, that follow from activities undertaken during calendar year 2011 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2011 would cause a deferral of tax payments on wages in 2011 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2011 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

### Tax Expenditure Baselines

A tax expenditure is an exception to baseline provisions of the tax structure that usually results in a reduction in the amount of tax owed. The 1974 Congressional Budget Act, which mandated the tax expenditure budget, did not specify the baseline provisions of the tax law. As noted previously, deciding whether provisions are exceptions, therefore, is a matter of judgment. As in prior years, most of this year's tax expenditure estimates are presented using two baselines: the normal tax baseline and the reference tax law baseline. Tax expenditures may take the form of credits, deductions, special exceptions and allowances, and reduce tax liability below the level implied by the baseline tax system.

The normal tax baseline is patterned on a practical variant of a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. The normal tax baseline allows personal exemptions, a standard deduction, and deduction of expenses incurred in earning income. It is not limited to a particular structure of tax rates, or by a specific definition of the taxpaying unit.

The reference tax law baseline is also patterned on a comprehensive income tax, but it is closer to existing law. Reference law tax expenditures are limited to special exceptions from a generally provided tax rule that serve programmatic functions in a way that is analogous to spending programs. Provisions under the reference law baseline are generally tax expenditures under the normal tax baseline, but the reverse is not always true.

Both the normal and reference tax baselines allow several major departures from a pure comprehensive income tax. For example, under the normal and reference tax baselines:

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Accrued income would be taxed under a comprehensive income tax.
- There is a separate corporate income tax. Under a comprehensive income tax, corporate income would be taxed only once – at the shareholder level, whether or not distributed in the form of dividends.





**Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011-2017—Continued**  
(In millions of dollars)

		Total from corporations and individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17
47	Capital gains treatment of certain income .....	630	890	830	650	800	960	1,070	4,310
48	Income averaging for farmers .....	90	90	90	90	100	100	100	480
49	Deferral of gain on sale of farm refiners .....	20	20	20	20	20	20	20	100
50	Expensing of reforestation expenditures .....	60	70	80	80	90	90	90	430
<b>Commerce and housing:</b>									
Financial institutions and insurance:									
51	Exemption of credit union income .....	1,110	1,140	1,160	1,120	1,120	1,210	1,520	6,130
52	Exclusion of interest on life insurance savings .....	22,060	23,570	25,150	26,810	28,350	29,890	30,430	140,630
53	Special alternative tax on small property and casualty insurance companies .....	40	40	40	40	40	40	40	200
54	Tax exemption of certain insurance companies owned by tax-exempt organizations .....	200	210	210	210	220	220	220	1,080
55	Small life insurance company deduction .....	30	30	30	30	30	30	30	150
56	Exclusion of interest spread of financial institutions .....	260	490	600	690	760	810	870	3,730
Housing:									
57	Exclusion of interest on owner-occupied mortgage subsidy bonds .....	1,060	1,170	1,460	1,720	1,890	2,000	2,100	9,170
58	Exclusion of interest on rental housing bonds .....	900	1,000	1,240	1,470	1,610	1,690	1,780	7,790
59	Deductibility of mortgage interest on owner-occupied homes .....	72,240	86,910	100,910	110,830	120,240	130,920	143,520	606,420
60	Deductibility of State and local property tax on owner-occupied homes .....	23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
61	Deferral of income from installment sales .....	970	1,380	1,350	1,180	1,390	1,610	1,770	7,300
62	Capital gains exclusion on home sales .....	15,060	16,040	23,440	31,610	34,910	38,560	42,590	171,110
63	Exclusion of net imputed rental income .....	46,950	50,640	51,080	58,740	66,860	75,480	85,220	337,380
64	Exception from passive loss rules for \$25,000 of rental loss .....	11,080	12,550	15,380	18,450	20,680	21,990	23,310	99,810
65	Credit for low-income housing investments <sup>6</sup> .....	6,150	6,530	7,380	7,830	7,850	7,920	8,320	39,300
66	Accelerated depreciation on rental housing (normal tax method) .....	-140	-50	90	350	690	1,020	1,330	3,480
67	Discharge of mortgage indebtedness .....	1,370	1,080	250	0	0	0	0	250
68	Credit for homebuyer <sup>7</sup> .....	2,400	-2,350	-1,150	-590	-520	-470	-410	-3,140
Commerce:									
69	Cancellation of indebtedness .....	690	330	-20	-220	-290	-310	-260	-1,100
70	Exceptions from imputed interest rules .....	50	50	50	50	50	50	50	250
71	Treatment of qualified dividends .....	16,550	30,580	21,900	0	0	0	0	21,900
72	Capital gains (except agriculture, timber, iron ore, and coal) .....	47,390	66,210	62,040	48,300	59,380	71,550	80,200	321,470
73	Capital gains exclusion of small corporation stock .....	60	60	280	660	1,020	1,060	830	3,850
74	Step-up basis of capital gains at death .....	3,940	19,940	23,860	36,200	38,370	40,670	43,110	182,210
75	Carryover basis of capital gains on gifts .....	1,930	1,860	2,070	3,360	3,530	3,650	3,830	16,440
76	Ordinary income treatment of loss from small business corporation stock sale .....	60	60	60	60	60	60	60	300
77	Accelerated depreciation of buildings other than rental housing (normal tax method) .....	-7,290	-6,970	-7,370	-7,390	-7,220	-7,010	-6,800	-35,790
78	Accelerated depreciation of machinery and equipment (normal tax method) .....	118,530	76,280	33,180	48,730	77,350	98,970	116,410	374,640
79	Expensing of certain small investments (normal tax method) .....	-30	3,060	940	440	1,330	1,570	1,760	6,040
80	Graduated corporation income tax rate (normal tax method) .....	3,280	3,220	3,300	3,590	3,770	3,960	4,050	18,670
81	Exclusion of interest on small issue bonds .....	240	270	340	400	430	460	480	2,110
82	Deduction for US production activities .....	13,130	13,750	14,500	15,330	16,200	17,090	17,960	81,080
83	Special rules for certain film and TV production .....	160	130	80	50	20	10	0	160
<b>Transportation:</b>									
84	Deferral of tax on shipping companies <sup>8</sup> .....	20	20	20	20	20	20	20	100
85	Exclusion of reimbursed employee parking expenses .....	3,060	3,170	3,290	3,440	3,590	3,750	3,900	17,970
86	Exclusion for employer-provided transit passes .....	560	570	560	590	630	670	720	3,170
87	Tax credit for certain expenditures for maintaining railroad tracks .....	160	130	80	50	20	10	0	160
88	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities .....	250	240	230	210	200	190	170	1,000
<b>Community and regional development:</b>									
89	Investment credit for rehabilitation of structures (other than historic) .....	20	20	20	20	20	20	20	100
90	Exclusion of interest for airport, dock, and similar bonds .....	700	780	970	1,160	1,260	1,330	1,410	6,130
91	Exemption of certain mutuals' and cooperatives' income .....	110	110	120	120	120	130	130	620
92	Empowerment zones and renewal communities .....	980	670	460	470	480	480	440	2,330
93	New markets tax credit .....	820	900	930	930	910	830	680	4,280

**Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011–2017—Continued**  
(In millions of dollars)

		Total from corporations and individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17
94	Expensing of environmental remediation costs .....	200	–20	–170	–160	–140	–130	–130	–730
95	Credit to holders of Gulf Tax Credit Bonds .....	80	70	50	50	50	50	40	240
96	Recovery Zone Bonds <sup>9</sup> .....	0	0	0	0	0	0	0	
97	Tribal Economic Development Bonds .....	170	380	480	580	630	660	690	3,040
<b>Education, training, employment, and social services:</b>									
Education:									
98	Exclusion of scholarship and fellowship income (normal tax method) .....	3,060	3,170	3,290	3,410	3,530	3,660	3,800	17,690
99	HOPE tax credit .....	0	0	580	5,780	5,780	5,770	5,800	23,710
100	Lifetime Learning tax credit .....	2,800	3,250	3,920	5,750	5,810	5,850	5,880	27,210
101	American Opportunity Tax Credit <sup>10</sup> .....	13,060	14,290	13,710	0	0	0	0	13,710
102	Education Individual Retirement Accounts .....	70	80	80	90	100	100	110	480
103	Deductibility of student-loan interest .....	1,400	850	900	960	1,020	1,090	1,160	5,130
104	Deduction for higher education expenses .....	690	470	0	0	0	0	0	0
105	Qualified tuition programs .....	1,610	1,780	1,890	1,980	2,070	2,170	2,280	10,390
106	Exclusion of interest on student-loan bonds .....	480	530	660	780	850	900	940	4,130
107	Exclusion of interest on bonds for private nonprofit educational facilities .....	2,100	2,320	2,900	3,430	3,760	3,970	4,170	18,230
108	Credit for holders of zone academy bonds <sup>11</sup> .....	200	200	180	160	130	120	110	700
109	Exclusion of interest on savings bonds redeemed to finance educational expenses ..	20	20	20	20	30	30	30	130
110	Parental personal exemption for students age 19 or over .....	5,600	3,120	2,800	3,060	2,780	2,510	2,260	13,410
111	Deductibility of charitable contributions (education) .....	3,520	3,910	4,610	5,060	5,500	5,930	6,370	27,470
112	Exclusion of employer-provided educational assistance .....	710	750	40	0	0	0	0	40
113	Special deduction for teacher expenses .....	190	170	0	0	0	0	0	0
114	Discharge of student loan indebtedness .....	20	20	20	20	20	20	20	100
115	Qualified school construction bonds <sup>12</sup> .....	210	400	580	650	650	650	0	2,530
Training, employment, and social services:									
116	Work opportunity tax credit .....	1,110	930	620	340	140	70	20	1,190
117	Welfare-to-work tax credit .....	0	0	0	0	0	0	0	0
118	Employer provided child care exclusion .....	840	1,350	1,580	1,670	1,780	1,900	2,040	8,970
119	Employer-provided child care credit .....	10	10	0	0	0	0	0	0
120	Assistance for adopted foster children .....	500	530	560	600	650	690	730	3,230
121	Adoption credit and exclusion <sup>13</sup> .....	1,200	760	380	110	80	80	80	730
122	Exclusion of employee meals and lodging (other than military) .....	9,980	6,620	10,290	10,460	10,640	10,830	11,020	53,240
123	Child credit <sup>14</sup> .....	23,410	24,470	18,390	9,280	8,900	8,500	8,060	53,130
124	Credit for child and dependent care expenses .....	4,200	3,400	1,620	1,460	1,380	1,320	1,260	7,040
125	Credit for disabled access expenditures .....	20	20	20	20	20	20	20	100
126	Deductibility of charitable contributions, other than education and health .....	29,820	33,290	39,770	43,900	47,800	51,660	55,590	238,720
127	Exclusion of certain foster care payments .....	410	410	400	410	400	390	380	1,980
128	Exclusion of parsonage allowances .....	660	710	770	830	900	970	1,050	4,520
129	Employee retention credit for employers in certain federal disaster areas .....	30	10	0	0	0	0	0	0
130	Exclusion for benefits provided to volunteer EMS and firefighters .....	20	0	0	0	0	0	0	0
131	Making work pay tax credit <sup>15</sup> .....	23,528	0	0	0	0	0	0	0
<b>Health:</b>									
132	Exclusion of employer contributions for medical insurance premiums and medical care <sup>16</sup> ...	163,040	170,650	180,580	189,670	200,640	213,620	227,810	1,012,320
133	Self-employed medical insurance premiums <sup>17</sup> .....	5,170	5,520	5,970	6,970	7,750	8,270	8,800	37,760
134	Medical Savings Accounts / Health Savings Accounts .....	1,880	1,980	2,070	2,210	2,350	2,510	2,680	11,820
135	Deductibility of medical expenses .....	8,280	9,320	9,910	10,710	12,490	14,420	15,640	63,170
136	Exclusion of interest on hospital construction bonds .....	3,100	3,440	4,280	5,050	5,550	5,860	6,150	26,890
137	Refundable Premium Assistance Tax Credit <sup>18</sup> .....	0	0	0	0	–2,440	–3,610	–4,460	–10,510
138	Credit for employee health insurance expenses of small business <sup>19</sup> .....	830	1,470	1,750	2,500	2,870	2,500	2,060	11,680
139	Deductibility of charitable contributions (health) .....	3,370	3,760	4,490	4,960	5,400	5,840	6,280	26,970
140	Tax credit for orphan drug research .....	770	930	1,120	1,360	1,640	1,990	2,410	8,520
141	Special Blue Cross/Blue Shield deduction .....	715	680	590	530	610	710	690	3,130
142	Tax credit for health insurance purchased by certain displaced and retired individuals <sup>20</sup> .....	10	10	10	0	0	0	0	10

**Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011–2017—Continued**  
(In millions of dollars)

		Total from corporations and individuals							
		2011	2012	2013	2014	2015	2016	2017	2013–17
143	Distributions from retirement plans for premiums for health and long-term care insurance .....	300	330	360	400	440	490	510	2,200
<b>Income security:</b>									
144	Exclusion of railroad retirement system benefits .....	360	340	290	260	250	240	220	1,260
145	Exclusion of workers' compensation benefits .....	7,050	7,410	7,790	8,170	8,570	9,000	9,440	42,970
146	Exclusion of public assistance benefits (normal tax method) .....	670	710	750	770	800	840	850	4,010
147	Exclusion of special benefits for disabled coal miners .....	40	40	40	40	40	40	40	200
148	Exclusion of military disability pensions .....	120	120	130	130	130	130	140	660
Net exclusion of pension contributions and earnings:									
149	Employer plans .....	36,390	44,490	52,330	56,650	59,840	62,960	66,260	298,040
150	401(k)-type plans .....	53,360	60,090	72,740	81,030	86,740	92,230	96,020	428,760
151	Individual Retirement Accounts .....	12,840	15,410	19,650	18,450	19,740	20,790	21,450	100,080
152	Low and moderate income savers credit .....	1,070	1,040	1,130	1,110	1,090	1,110	1,070	5,510
153	Self-Employed plans .....	15,030	17,070	19,580	20,940	22,450	23,840	25,390	112,200
Exclusion of other employee benefits:									
154	Premiums on group term life insurance .....	1,980	2,080	2,120	2,150	2,190	2,250	2,310	11,020
155	Premiums on accident and disability insurance .....	340	350	360	360	370	370	370	1,830
156	Income of trusts to finance supplementary unemployment benefits .....	30	30	40	50	60	70	80	300
157	Special ESOP rules .....	1,500	1,600	1,700	1,700	1,800	1,900	2,000	9,100
158	Additional deduction for the blind .....	40	30	40	50	50	50	50	240
159	Additional deduction for the elderly .....	2,390	2,110	2,780	3,350	3,480	3,500	3,490	16,600
160	Tax credit for the elderly and disabled .....	10	10	10	10	10	10	0	40
161	Deductibility of casualty losses .....	270	300	350	380	390	420	440	1,980
162	Earned income tax credit <sup>21</sup> .....	1,172	1,128	3,155	3,265	3,423	3,550	3,769	17,162
<b>Social Security:</b>									
Exclusion of social security benefits:									
163	Social Security benefits for retired workers .....	25,360	25,970	25,620	27,580	29,690	31,970	34,420	149,280
164	Social Security benefits for disabled workers .....	7,690	8,030	8,230	8,590	9,000	9,430	9,860	45,110
165	Social Security benefits for spouses, dependents and survivors .....	4,710	4,470	3,890	3,960	4,040	4,110	4,190	20,190
<b>Veterans benefits and services:</b>									
166	Exclusion of veterans death benefits and disability compensation .....	5,200	5,880	5,650	6,060	6,210	6,520	6,770	31,210
167	Exclusion of veterans pensions .....	240	300	340	370	390	420	440	1,960
168	Exclusion of GI bill benefits .....	810	1,030	1,190	1,280	1,350	1,420	1,470	6,710
169	Exclusion of interest on veterans housing bonds .....	10	10	20	30	30	30	30	140
<b>General purpose fiscal assistance:</b>									
170	Exclusion of interest on public purpose State and local bonds .....	26,190	29,080	36,210	42,770	46,920	49,570	52,030	227,500
171	Build America Bonds <sup>22</sup> .....	0	0	0	0	0	0	0	0
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes .....	41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
<b>Interest:</b>									
173	Deferral of interest on U.S. savings bonds .....	1,190	1,200	1,250	1,330	1,340	1,360	1,370	6,650
<b>Addendum: Aid to State and local governments:</b>									
Deductibility of:									
	Property taxes on owner-occupied homes .....	23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
	Nonbusiness State and local taxes other than on owner-occupied homes .....	41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
Exclusion of interest on State and local bonds for:									
	Public purposes .....	26,190	29,080	36,210	42,770	46,920	49,570	52,030	227,500
	Energy facilities .....	20	30	30	30	40	40	60	200
	Water, sewage, and hazardous waste disposal facilities .....	420	470	580	690	750	790	830	3,640
	Small-issues .....	240	270	340	400	430	460	480	2,110
	Owner-occupied mortgage subsidies .....	1,060	1,170	1,460	1,720	1,890	2,000	2,100	9,170
	Rental housing .....	900	1,000	1,240	1,470	1,610	1,690	1,780	7,790
	Airports, docks, and similar facilities .....	700	780	970	1,160	1,260	1,330	1,410	6,130

**Table 17–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2011–2017—Continued**  
(In millions of dollars)

	Total from corporations and individuals							
	2011	2012	2013	2014	2015	2016	2017	2013–17
Student loans .....	480	530	660	780	850	900	940	4,130
Private nonprofit educational facilities .....	2,100	2,320	2,900	3,430	3,760	3,970	4,170	18,230
Hospital construction .....	3,100	3,440	4,280	5,050	5,550	5,860	6,150	26,890
Veterans' housing .....	10	10	20	30	30	30	30	140
GO Zone and GO Zone mortgage .....	80	70	50	50	50	50	40	240
Credit for holders of zone academy bonds .....	200	200	180	160	130	120	110	700

<sup>1</sup> Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010.

The effect of the grant on outlays (in millions of dollars) is as follows: 2011 \$3,510; 2012 \$4,130; 2013 \$3,850; 2014 \$3,210; 2015 \$1,230; 2016 \$290; 2017 \$110;

<sup>2</sup> In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2011 \$6,520; 2012 \$3,590; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0.

The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2011 \$160; 2012 \$170; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0.

<sup>3</sup> In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2011 \$760; 2012 \$210; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0.

<sup>4</sup> In addition, the provision has outlay effects of (in millions of dollars): 2011 \$20; 2012 \$40; 2013 \$50; 2014 \$50; 2015 \$50; 2016 \$50; 2017 \$50.

<sup>5</sup> In addition, the provision has outlay effects of (in millions of dollars): 2011 \$30; 2012 \$50; 2013 \$60; 2014 \$60; 2015 \$60; 2016 \$60; 2017 \$60.

<sup>6</sup> In addition, the credit for low-income housing investments has outlay effects (in millions of dollars) as follows: 2010 \$1940; 2011 \$3480; 2012 \$180.

<sup>7</sup> The figures in the table indicate the effect of the homebuyer credits on receipts. The effect of the credits on outlays (in millions of dollars) is as follows: 2010 \$8,670; 2011 \$2,760; 2012 \$310; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; and 2017 \$0.

<sup>8</sup> These figures do not account for the tonnage tax which shipping companies may opt into in lieu of the corporate income tax.

The tonnage tax reduces the cost of this tax expenditure by \$20 per year in each year of the budget.

<sup>9</sup> In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2011 \$160, 2012 \$160, 2013 \$160, 2014 \$160, 2015 \$160, 2016 \$160; and 2017 \$160.

<sup>10</sup> The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 \$5,770; 2012 \$6,560; 2013 \$7,850.

<sup>11</sup> In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2011 \$10; 2012 \$20; 2013 \$30; 2014 \$30; 2015 \$30; 2016 \$30; 2017 \$30.

<sup>12</sup> In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2011 \$430; 2012 \$780; 2013 \$940; 2014 \$940; 2015 \$940; 2016 \$940; 2017 \$940.

<sup>13</sup> The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 \$1,150 and 2012 \$540.

<sup>14</sup> The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 \$22,890; 2012 \$22,660; 2013 \$22,390; 2014 \$1,670; 2015 \$1,680; 2016 \$1,420; and 2017 \$1,650.

<sup>15</sup> The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 \$13,876.

<sup>16</sup> The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2011 \$104,800; 2012 \$108,850; 2013 \$113,690; 2014 \$117,160; 2015 \$122,260; 2016 \$129,280; and 2017 \$136,760.

<sup>17</sup> In 2010 only, there is an additional exclusion of self-employed insurance premiums from payroll taxes. The effect on payroll tax receipts FY 2010 (in millions of dollars) is \$1,570.

<sup>18</sup> In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 \$21,550; 2015 \$43,260; 2016 \$55,900; and 2017 \$61,800.

<sup>19</sup> In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2011 \$30; 2012 \$110; 2013 \$130; 2014 \$180; 2015 \$210; 2016 \$180; and 2017 \$150.

<sup>20</sup> The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 \$190; 2012 \$150; 2013 \$140; 2014 \$40; 2015 \$0; 2016 \$0; and 2017 \$0.

<sup>21</sup> The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2011 \$55,670; 2012 \$52,120; 2013 \$52,500; 2014 \$46,570; 2015 \$47,270; 2016 \$47,900; and 2017 \$48,790.

<sup>22</sup> In addition, Build America Bonds have outlay effects of (in millions of dollars): 2011 \$3,190; 2012 \$3,190; 2013 \$3,190; 2014 \$3,190; 2015 \$3,190; 2016 \$3,190; and 2017 \$3,190.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest \$10 million. Provisions with estimates that rounded to zero in each year are not included in the table.



**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011-2017**

(In millions of dollars)

	Corporations								Individuals																	
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17										
<b>National Defense</b>																										
1	Exclusion of benefits and allowances to armed forces personnel .....								13,250	14,270	14,900	15,380	12,960	12,710	13,030	68,980										
<b>International affairs:</b>																										
2	Exclusion of income earned abroad by U.S. citizens .....								5,550	5,400	5,800	6,140	6,430	6,740	7,050	32,160										
3	Exclusion of certain allowances for Federal employees abroad .....								1,020	1,070	1,120	1,180	1,240	1,300	1,370	6,210										
4	Inventory property sales source rules exception .....								3,160	3,430	3,730	4,050	4,400	4,780	5,180	22,140										
5	Deferral of income from controlled foreign corporations (normal tax method) .....								41,410	42,000	41,810	41,770	43,020	44,240	45,180	216,020										
6	Deferred taxes for financial firms on certain income earned overseas .....								6,180	2,510	0	0	0	0	0	0										
<b>General science, space, and technology:</b>																										
7	Expensing of research and .....								960	3,060	4,950	6,000	6,700	7,190	7,430	32,270	-160	0	120	190	210	230	250	1,000		
8	Credit for increasing research activities .....								8,300	6,280	4,230	3,380	2,700	2,160	1,720	14,190	460	140	0	0	0	0	0	0	0	0
<b>Energy:</b>																										
9	Expensing of exploration and development costs, fuels .....								440	410	690	770	550	340	230	2,580	60	60	100	110	80	50	30	370		
10	Excess of percentage over cost depletion, fuels .....								1,010	1,040	1,070	1,110	1,160	1,210	1,260	5,810	180	180	190	200	210	220	230	1,050		
11	Alternative fuel production credit .....								10	10	10	0	0	0	0	10	0	0	0	0	0	0	0	0	0	
12	Exception from passive loss limitation for working interests in oil and gas properties .....																30	20	30	30	30	20	20	130		
13	Capital gains treatment of royalties on coal																60	90	80	60	80	100	110	430		
14	Exclusion of interest on energy facility bonds .....								10	10	10	10	10	10	30	70	10	20	20	20	30	30	30	130		
15	Energy production credit <sup>1</sup> .....								1,410	1,540	1,710	1,770	1,750	1,670	1,510	8,410	150	170	190	190	190	180	170	920		
16	Energy investment credit <sup>1</sup> .....								560	740	1,210	1,830	2,320	2,600	1,810	9,770	140	180	300	460	580	650	450	2,440		
17	Alcohol fuel credits <sup>2</sup> .....								480	110	80	40	20	10	10	160	20	30	30	10	10	0	0	50		
18	Bio-Diesel and small agri-biodiesel producer tax credits <sup>3</sup> .....								20	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
19	Tax credit and deduction for clean-fuel burning vehicles .....								40	20	20	30	50	60	60	220	50	80	160	210	340	560	620	1,890		
20	Exclusion of utility conservation subsidies ..								10	10	10	10	10	10	0	40	210	200	200	200	200	190	190	980		
21	Credit for holding clean renewable energy bonds <sup>4</sup> .....								20	20	20	20	20	20	20	100	50	50	50	50	50	50	50	250		
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy .....								120	-70	-180	-190	-180	-150	-120	-820										
23	Credit for investment in clean coal facilities .....								370	400	410	470	510	280	40	1,710	0	0	0	0	0	0	0	0		
24	Temporary 50% expensing for equipment used in the refining of liquid fuels .....								670	580	530	-560	-1,170	-990	-830	-3,020	0	0	0	0	0	0	0	0		
25	Natural gas distribution pipelines treated as 15-year property .....								120	110	90	80	80	90	100	440	0	0	0	0	0	0	0	0	0	
26	Amortize all geological and geophysical expenditures over 2 years .....								100	120	130	110	70	50	20	380	20	30	30	30	20	10	10	100		
27	Allowance of deduction for certain energy efficient commercial building property ...								60	70	80	50	20	10	0	160	20	20	20	20	10	0	0	50		
28	Credit for construction of new energy efficient homes .....								20	20	10	10	10	10	0	40	30	30	10	10	10	0	0	30		
29	Credit for energy efficiency improvements to existing homes .....								0	0	0	0	0	0	0	0	4,370	1,110	0	0	0	0	0	0	0	
30	Credit for energy efficient appliances .....								280	200	140	120	110	90	0	460	0	0	0	0	0	0	0	0		
31	Credit for residential energy efficient property .....								0	0	0	0	0	0	0	0	840	950	1,030	1,090	1,160	1,220	500	5,000		
32	Qualified energy conservation bonds <sup>5</sup> .....								0	10	10	10	10	10	10	50	10	10	20	20	20	20	20	100		
33	Advanced Energy Property Credit .....								390	410	340	240	110	-10	-50	630	40	50	40	30	10	0	-10	70		

**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011-2017—Continued**

(In millions of dollars)

	Corporations								Individuals								
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17	
34	Advanced nuclear power production credit .....	0	0	0	0	0	0	80	80	0	0	0	0	0	0	0	0
<b>Natural resources and environment:</b>																	
35	Expensing of exploration and development costs, nonfuel minerals .....	60	60	70	80	80	90	100	420	0	0	0	0	0	0	0	0
36	Excess of percentage over cost depletion, nonfuel minerals .....	550	550	560	560	570	580	580	2,850	30	30	30	40	40	40	40	190
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities .....	120	130	170	200	210	220	230	1,030	300	340	410	490	540	570	600	2,610
38	Capital gains treatment of certain timber income .....									60	90	80	60	80	100	110	430
39	Expensing of multiperiod timber growing costs .....	160	170	170	180	190	200	200	940	90	100	110	110	120	120	120	580
40	Tax incentives for preservation of historic structures .....	470	500	530	560	580	610	640	2,920	40	40	40	50	50	50	60	250
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites .....	40	30	20	10	0	0	0	30	20	10	10	0	0	0	0	10
42	Industrial CO <sub>2</sub> capture and sequestration tax credit .....	60	60	60	70	90	220	400	840	0	0	0	0	0	0	0	0
43	Deduction for endangered species recovery expenditures .....	10	10	10	10	10	10	10	50	10	10	10	10	10	20	20	70
<b>Agriculture:</b>																	
44	Expensing of certain capital outlays .....	0	0	10	10	10	10	10	50	70	70	100	120	120	130	140	610
45	Expensing of certain multiperiod production costs .....	10	10	10	10	10	10	10	50	120	130	160	170	170	170	180	850
46	Treatment of loans forgiven for solvent farmers .....									20	20	20	20	20	20	20	100
47	Capital gains treatment of certain income .....									630	890	830	650	800	960	1,070	4,310
48	Income averaging for farmers .....									90	90	90	90	100	100	100	480
49	Deferral of gain on sale of farm refiners .....	20	20	20	20	20	20	20	100								
50	Expensing of reforestation expenditures .....	10	10	10	10	10	10	10	50	50	60	70	70	80	80	80	380
<b>Commerce and housing:</b>																	
Financial institutions and insurance:																	
51	Exemption of credit union income .....	1,110	1,140	1,160	1,120	1,120	1,210	1,520	6,130								
52	Exclusion of interest on life insurance savings .....	2,420	2,560	2,670	2,820	2,910	2,970	3,080	14,450	19,640	21,010	22,480	23,990	25,440	26,920	27,350	126,180
53	Special alternative tax on small property and casualty insurance companies .....	40	40	40	40	40	40	40	200								
54	Tax exemption of certain insurance companies owned by .....	200	210	210	210	220	220	220	1,080								
55	Small life insurance company deduction .....	30	30	30	30	30	30	30	150								
56	Exclusion of interest spread of financial institutions .....									260	490	600	690	760	810	870	3,730
Housing:																	
57	Exclusion of interest on owner-occupied mortgage subsidy bonds .....	310	310	420	500	540	560	580	2,600	750	860	1,040	1,220	1,350	1,440	1,520	6,570
58	Exclusion of interest on rental housing bonds .....	260	270	360	430	460	470	490	2,210	640	730	880	1,040	1,150	1,220	1,290	5,580
59	Deductibility of mortgage interest on owner-occupied homes .....	0	0	0	0	0	0	0	0	72,240	86,910	100,910	110,830	120,240	130,920	143,520	606,420
60	Deductibility of State and local property tax on owner-occupied homes .....	0	0	0	0	0	0	0	0	23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
61	Deferral of income from installment sales .....									970	1,380	1,350	1,180	1,390	1,610	1,770	7,300
62	Capital gains exclusion on home sales .....									15,060	16,040	23,440	31,610	34,910	38,560	42,590	171,110
63	Exclusion of net imputed rental income .....									46,950	50,640	51,080	58,740	66,860	75,480	85,220	337,380
64	Exception from passive loss rules for \$25,000 of rental loss .....									11,080	12,550	15,380	18,450	20,680	21,990	23,310	99,810
65	Credit for low-income housing investments <sup>6</sup> .....	5,840	6,200	7,010	7,440	7,460	7,520	7,900	37,330	310	330	370	390	390	400	420	1,970

**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011-2017—Continued**

(In millions of dollars)

	Corporations									Individuals							
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17	
66	Accelerated depreciation on rental housing (normal tax method) .....	-20	-10	10	50	100	150	200	510	-120	-40	80	300	590	870	1,130	2,970
67	Discharge of mortgage indebtedness .....	0	0	0	0	0	0	0	0	1,370	1,080	250	0	0	0	0	250
68	Credit for homebuyer <sup>7</sup> .....									2,400	-2,350	-1,150	-590	-520	-470	-410	-3,140
<b>Commerce:</b>																	
69	Cancellation of indebtedness .....									690	330	-20	-220	-290	-310	-260	-1,100
70	Exceptions from imputed interest rules .....									50	50	50	50	50	50	50	250
71	Treatment of qualified dividends .....									16,550	30,580	21,900	0	0	0	0	21,900
72	Capital gains (except agriculture, timber, iron ore, and coal) .....									47,390	66,210	62,040	48,300	59,380	71,550	80,200	321,470
73	Capital gains exclusion of small corporation stock .....									60	60	280	660	1,020	1,060	830	3,850
74	Step-up basis of capital gains at death .....									3,940	19,940	23,860	36,200	38,370	40,670	43,110	182,210
75	Carryover basis of capital gains on gifts .....									1,930	1,860	2,070	3,360	3,530	3,650	3,830	16,440
76	Ordinary income treatment of loss from small business corporation stock sale .....									60	60	60	60	60	60	60	300
77	Accelerated depreciation of buildings other than rental housing (normal tax method) .....	-3,300	-3,140	-3,100	-3,000	-2,950	-2,890	-2,820	-14,760	-3,990	-3,830	-4,270	-4,390	-4,270	-4,120	-3,980	-21,030
78	Accelerated depreciation of machinery and equipment (normal tax method) .....	76,140	46,650	13,750	23,170	43,080	58,140	70,450	208,590	42,390	29,630	19,430	25,560	34,270	40,830	45,960	166,050
79	Expensing of certain small investments (normal tax method) .....	-40	460	50	-60	90	130	170	380	10	2,600	890	500	1,240	1,440	1,590	5,660
80	Graduated corporation income tax rate (normal tax method) .....	3,280	3,220	3,300	3,590	3,770	3,960	4,050	18,670	0	0	0	0	0	0	0	0
81	Exclusion of interest on small issue bonds .....	70	70	100	120	120	130	130	600	170	200	240	280	310	330	350	1,510
82	Deduction for US production activities .....	9840	10310	10870	11490	12140	12810	13460	60,770	3,290	3,440	3,630	3,840	4,060	4,280	4,500	20,310
83	Special rules for certain film and TV production .....	130	100	60	40	20	10	0	130	30	30	20	10	0	0	0	30
<b>Transportation</b>																	
84	Deferral of tax on shipping companies <sup>8</sup> .....	20	20	20	20	20	20	20	100	0	0	0	0	0	0	0	0
85	Exclusion of reimbursed employee parking expenses .....	0	0	0	0	0	0	0	0	3,060	3,170	3,290	3,440	3,590	3,750	3,900	17,970
86	Exclusion for employer-provided transit passes .....	0	0	0	0	0	0	0	0	560	570	560	590	630	670	720	3,170
87	Tax credit for certain expenditures for maintaining railroad tracks .....	130	100	60	40	20	10	0	130	30	30	20	10	0	0	0	30
88	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities .....	60	60	60	50	50	50	40	250	190	180	170	160	150	140	130	750
<b>Community and regional development:</b>																	
89	Investment credit for rehabilitation of structures (other than historic) .....	10	10	10	10	10	10	10	50	10	10	10	10	10	10	10	50
90	Exclusion of interest for airport, dock, and similar bonds .....	200	210	280	340	360	370	390	1,740	500	570	690	820	900	960	1,020	4,390
91	Exemption of certain mutuals' and cooperatives' income .....	110	110	120	120	120	130	130	620								
92	Empowerment zones, the DC enterprise zone, and renewal communities .....	450	230	140	140	140	130	120	670	530	440	320	330	340	350	320	1,660
93	New markets tax credit .....	800	880	910	910	890	810	660	4,180	20	20	20	20	20	20	20	100
94	Expensing of environmental remediation costs .....	170	-20	-140	-130	-120	-110	-110	-610	30	0	-30	-30	-20	-20	-20	-120
95	Credit to holders of Gulf Tax Credit Bonds .....	20	20	10	10	10	10	10	50	60	50	40	40	40	40	30	190
96	Recovery Zone Bonds <sup>9</sup> .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
97	Tribal Economic Development Bonds .....	60	100	140	170	180	180	190	860	110	280	340	410	450	480	500	2,180
<b>Education, training, employment, and social services:</b>																	
<b>Education:</b>																	
98	Exclusion of scholarship and fellowship income (normal tax method) .....									3,060	3,170	3,290	3,410	3,530	3,660	3,800	17,690

**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011-2017—Continued**

(In millions of dollars)

	Corporations								Individuals							
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17
99									0	0	580	5,780	5,780	5,770	5,800	23,710
100									2,800	3,250	3,920	5,750	5,810	5,850	5,880	27,210
101									13,060	14,290	13,710	0	0	0	0	13,710
102									70	80	80	90	100	100	110	480
103									1,400	850	900	960	1,020	1,090	1,160	5,130
104									690	470	0	0	0	0	0	0
105									1,610	1,780	1,890	1,980	2,070	2,170	2,280	10,390
106									140	140	190	230	240	250	260	1,170
107									610	620	840	1,000	1,070	1,110	1,150	5,170
108									200	200	180	160	130	120	110	700
109									0	20	20	20	20	30	30	130
110									0	5,600	3,120	2,800	3,060	2,780	2,510	13,410
111									650	690	740	790	840	890	940	4,200
112									0	710	750	40	0	0	0	40
113									0	190	170	0	0	0	0	0
114									0	20	20	20	20	20	20	100
115									60	110	150	160	160	160	630	1,900
Training, employment, and social services:																
116									860	790	570	310	130	60	20	1,090
117									0	0	0	0	0	0	0	0
118									10	10	0	0	0	0	0	0
119									10	10	0	0	0	0	0	0
120									500	530	560	600	650	690	730	3,230
121									1,200	760	380	110	80	80	80	730
122									9,980	6,620	10,290	10,460	10,640	10,830	11,020	53,240
123									23,410	24,470	18,390	9,280	8,900	8,500	8,060	53,130
124									4,200	3,400	1,620	1,460	1,380	1,320	1,260	7,040
125									10	10	10	10	10	10	10	50
126									1,430	1,510	1,600	1,690	1,770	1,860	1,940	8,860
127									410	410	400	410	400	390	380	1,980
128									660	710	770	830	900	970	1,050	4,520
129									20	10	0	0	0	0	0	0
130									20	0	0	0	0	0	0	0
131									23,528	0	0	0	0	0	0	0
<b>Health:</b>																
132									163,040	170,650	180,580	189,670	200,640	213,620	227,810	1,012,320
133									5,170	5,520	5,970	6,970	7,750	8,270	8,800	37,760
134									1,880	1,980	2,070	2,210	2,350	2,510	2,680	11,820
135									8,280	9,320	9,910	10,710	12,490	14,420	15,640	63,170



**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011-2017—Continued**

(In millions of dollars)

	Corporations									Individuals							
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17	
136 Exclusion of interest on hospital construction bonds .....	900	920	1,240	1,470	1,580	1,630	1,700	7,620	2,200	2,520	3,040	3,580	3,970	4,230	4,450	19,270	
137 Refundable Premium Assistance Tax Credit <sup>18</sup> ....									0	0	0	0	-2,440	-3,610	-4,460	-10,510	
138 Credit for employee health insurance expenses of small business <sup>19</sup> .....	270	480	570	820	940	820	670	3,820	560	990	1,180	1,680	1,930	1,680	1,390	7,860	
139 Deductibility of charitable contributions (health) .....	190	200	210	230	240	250	260	1,190	3,180	3,560	4,280	4,730	5,160	5,590	6,020	25,780	
140 Tax credit for orphan drug research .....	770	930	1,120	1,360	1,640	1,990	2,410	8,520									
141 Special Blue Cross/Blue Shield deduction .....	715	680	590	530	610	710	690	3,130									
142 Tax credit for health insurance purchased by certain displaced and retired individuals <sup>20</sup> .....									10	10	10	0	0	0	0	10	
143 Distributions from retirement plans for premiums for health and long-term care insurance .....									300	330	360	400	440	490	510	2,200	
<b>Income security:</b>																	
144 Exclusion of railroad retirement system benefits .....									360	340	290	260	250	240	220	1,260	
145 Exclusion of workers' compensation benefits .....									7,050	7,410	7,790	8,170	8,570	9,000	9,440	42,970	
146 Exclusion of public assistance benefits (normal tax method) .....									670	710	750	770	800	840	850	4,010	
147 Exclusion of special benefits for disabled coal miners .....									40	40	40	40	40	40	40	200	
148 Exclusion of military disability pensions .....									120	120	130	130	130	130	140	660	
Net exclusion of pension contributions and earnings:																	
149 Employer plans .....									36,390	44,490	52,330	56,650	59,840	62,960	66,260	298,040	
150 401(k)-type plans .....									53,360	60,090	72,740	81,030	86,740	92,230	96,020	428,760	
151 Individual Retirement Accounts .....									12,840	15,410	19,650	18,450	19,740	20,790	21,450	100,080	
152 Low and moderate income savers credit ..									1,070	1,040	1,130	1,110	1,090	1,110	1,070	5,510	
153 Self-Employed plans .....									15,030	17,070	19,580	20,940	22,450	23,840	25,390	112,200	
Exclusion of other employee benefits:																	
154 Premiums on group term life insurance ...									1,980	2,080	2,120	2,150	2,190	2,250	2,310	11,020	
155 Premiums on accident and disability insurance .....									340	350	360	360	370	370	370	1,830	
156 Income of trusts to finance supplementary unemployment benefits .....									30	30	40	50	60	70	80	300	
157 Special ESOP rules .....	1,030	1,110	1,180	1,150	1,220	1,290	1,370	6,210	470	490	520	550	580	610	630	2,890	
158 Additional deduction for the blind .....									40	30	40	50	50	50	50	240	
159 Additional deduction for the elderly .....									2,390	2,110	2,780	3,350	3,480	3,500	3,490	16,600	
160 Tax credit for the elderly and disabled .....									10	10	10	10	10	10	0	40	
161 Deductibility of casualty losses .....									270	300	350	380	390	420	440	1,980	
162 Earned income tax credit <sup>21</sup> .....									1,172	1,128	3,155	3,265	3,423	3,550	3,769	17,162	
<b>Social Security:</b>																	
Exclusion of social security benefits:																	
163 Social Security benefits for retired workers .....									25,360	25,970	25,620	27,580	29,690	31,970	34,420	149,280	
164 Social Security benefits for disabled workers .....									7,690	8,030	8,230	8,590	9,000	9,430	9,860	45,110	
165 Social Security benefits for spouses, dependents and survivors .....									4,710	4,470	3,890	3,960	4,040	4,110	4,190	20,190	
<b>Veterans benefits and services:</b>																	
166 Exclusion of veterans death benefits and disability compensation .....									5,200	5,880	5,650	6,060	6,210	6,520	6,770	31,210	
167 Exclusion of veterans pensions .....									240	300	340	370	390	420	440	1,960	
168 Exclusion of GI bill benefits .....									810	1,030	1,190	1,280	1,350	1,420	1,470	6,710	

**Table 17-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2011-2017—Continued**

(In millions of dollars)

	Corporations								Individuals							
	2011	2012	2013	2014	2015	2016	2017	2013-17	2011	2012	2013	2014	2015	2016	2017	2013-17
169 Exclusion of interest on veterans housing bonds .....	0	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
<b>General purpose fiscal assistance:</b>																
170 Exclusion of interest on public purpose State and local bonds .....	7,570	7,800	10,510	12,460	13,360	13,820	14,370	64,520	18,620	21,280	25,700	30,310	33,560	35,750	37,660	162,980
171 Build America Bonds <sup>22</sup> .....	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
172 Deductibility of nonbusiness State and local taxes other than on owner-occupied homes .....									41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
<b>Interest:</b>																
173 Deferral of interest on U.S. savings bonds ...									1,190	1,200	1,250	1,330	1,340	1,360	1,370	6,650
<b>Addendum: Aid to State and local governments:</b>																
Deductibility of:																
Property taxes on owner-occupied homes .....																
									23,210	16,150	22,320	27,900	29,060	30,080	31,270	140,630
Nonbusiness State and local taxes other than on owner-occupied homes .....																
									41,060	33,180	46,260	56,980	60,500	63,880	67,430	295,050
Exclusion of interest on State and local bonds for:																
Public purposes .....																
	7,570	7,800	10,510	12,460	13,360	13,820	14,370	64,520	18,620	21,280	25,700	30,310	33,560	35,750	37,660	162,980
Energy facilities .....																
	10	10	10	10	10	10	30	70	10	20	20	20	30	30	30	130
Water, sewage, and hazardous waste disposal facilities .....																
	120	130	170	200	210	220	230	1,030	300	340	410	490	540	570	600	2,610
Small-issues .....																
	70	70	100	120	120	130	130	600	170	200	240	280	310	330	350	1,510
Owner-occupied mortgage subsidies .....																
	310	310	420	500	540	560	580	2,600	750	860	1,040	1,220	1,350	1,440	1,520	6,570
Rental housing .....																
	260	270	360	430	460	470	490	2,210	640	730	880	1,040	1,150	1,220	1,290	5,580
Airports, docks, and similar facilities .....																
	200	210	280	340	360	370	390	1,740	500	570	690	820	900	960	1,020	4,390
Student loans .....																
	140	140	190	230	240	250	260	1,170	340	390	470	550	610	650	680	2,960
Private nonprofit educational facilities ...																
	610	620	840	1,000	1,070	1,110	1,150	5,170	1,490	1,700	2,060	2,430	2,690	2,860	3,020	13,060
Hospital construction .....																
	900	920	1,240	1,470	1,580	1,630	1,700	7,620	2,200	2,520	3,040	3,580	3,970	4,230	4,450	19,270
Veterans' housing .....																
	0	0	10	10	10	10	10	50	10	10	10	20	20	20	20	90
GO Zone and GO Zone mortgage .....																
	20	20	10	10	10	10	10	50	60	50	40	40	40	40	30	190
Credit for holders of zone academy bonds .....																
	200	200	180	160	130	120	110	700								

<sup>1</sup> Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010.

The effect of the grant on outlays (in millions of dollars) is as follows: 2011 \$3,510; 2012 \$4,130; 2013 \$3,850; 2014 \$3,210; 2015 \$1,230; 2016 \$290; 2017 \$110.

<sup>2</sup> In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows:

2011 \$6,520; 2012 \$3,590; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0.

The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows:

2011 \$160; 2012 \$170; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0.

<sup>3</sup> In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows:

2011 \$760; 2012 \$210; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; 2017: \$0.

<sup>4</sup> In addition, the provision has outlay effects of (in millions of dollars):

2011 \$20; 2012 \$40; 2013 \$50; 2014 \$50; 2015 \$50; 2016 \$50; 2017 \$50.

<sup>5</sup> In addition, the provision has outlay effects of (in millions of dollars):

2011 \$30; 2012 \$50; 2013 \$60; 2014 \$60; 2015 \$60; 2016 \$60; 2017 \$60.

<sup>6</sup> In addition, the credit for low-income housing investments has outlay effects (in millions of dollars) as follows:

2010 \$1940; 2011 \$3480; 2012 \$180.

<sup>7</sup> The figures in the table indicate the effect of the homebuyer credits on receipts. The effect of the credits on outlays (in millions of dollars) is as follows:

2010 \$8,670; 2011 \$2,760; 2012 \$310; 2013 \$0; 2014 \$0; 2015 \$0; 2016 \$0; and 2017 \$0.

<sup>8</sup> These figures do not account for the tonnage tax which shipping companies may opt into in lieu of the corporate income tax.

The tonnage tax reduces the cost of this tax expenditure by \$20 per year in each year of the budget.

<sup>9</sup> In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows:  
2011 \$160; 2012 \$160; 2013 \$160; 2014 \$160; 2015 \$160; 2016 \$160; and 2017 \$160.

<sup>10</sup> The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:  
2011 \$5,770; 2012 \$6,560; 2013 \$7,850.

<sup>11</sup> In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars):  
2011 \$10; 2012 \$20; 2013 \$30; 2014 \$30; 2015 \$30; 2016 \$30; 2017 \$30.

<sup>12</sup> In addition, the provision for school construction bonds has outlay effects of (in millions of dollars):  
2011 \$430; 2012 \$780; 2013 \$940; 2014 \$940; 2015 \$940; 2016 \$940; 2017 \$940.

<sup>13</sup> The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:  
2011 \$1,150 and 2012 \$540.

<sup>14</sup> The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:  
2011 \$22,890; 2012 \$22,660; 2013 \$22,390; 2014 \$1,670; 2015 \$1,680; 2016 \$1,420; and 2017 \$1,650.

<sup>15</sup> The figures in the table indicate the effect of the making work pay tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:  
2011 \$13,876.

<sup>16</sup> The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows:  
2011 \$104,800; 2012 \$108,850; 2013 \$113,690; 2014 \$117,160; 2015 \$122,260; 2016 \$129,280; and 2017 \$136,760.

<sup>17</sup> In 2010 only, there is an additional exclusion of self-employed insurance premiums from payroll taxes. The effect on payroll tax receipts FY 2010 (in millions of dollars) is \$1,570.

<sup>18</sup> In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows:  
2014 \$21,550; 2015 \$43,260; 2016 \$55,900; and 2017 \$61,800.

<sup>19</sup> In addition, the small business credit provision has outlay effects (in millions of dollars) as follows:  
2011 \$30; 2012 \$110; 2013 \$130; 2014 \$180; 2015 \$210; 2016 \$180; and 2017 \$150.

<sup>20</sup> The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:  
2011 \$190; 2012 \$150; 2013 \$140; 2014 \$40; 2015 \$0; 2016 \$0; and 2017 \$0.

<sup>21</sup> The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows:  
2011 \$55,670; 2012 \$52,120; 2013 \$52,500; 2014 \$46,570; 2015 \$47,270; 2016 \$47,900; and 2017 \$48,790.

<sup>22</sup> In addition, Build America Bonds have outlay effects of (in millions of dollars):  
2011 \$3,190; 2012 \$3,190; 2013 \$3,190; 2014 \$3,190; 2015 \$3,190; 2016 \$3,190; and 2017 \$3,190.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest \$10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

**Table 17-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT**  
(In millions of dollars)

	Provision	2013	2013-17
132	Exclusion of employer contributions for medical insurance premiums and medical care .....	180,580	1,012,320
59	Deductibility of mortgage interest on owner-occupied homes .....	100,910	606,420
150	401(k)-type plans .....	72,740	428,760
78	Accelerated depreciation of machinery and equipment (normal tax method) .....	33,180	374,640
63	Exclusion of net imputed rental income .....	51,080	337,380
72	Capital gains (except agriculture, timber, iron ore, and coal) .....	62,040	321,470
149	Employer plans .....	52,330	298,040
172	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes .....	46,260	295,050
126	Deductibility of charitable contributions, other than education and health .....	39,770	238,720
170	Exclusion of interest on public purpose State and local bonds .....	36,210	227,500
5	Deferral of income from controlled foreign corporations (normal tax method) .....	41,810	216,020
74	Step-up basis of capital gains at death .....	23,860	182,210
62	Capital gains exclusion on home sales .....	23,440	171,110
163	Social Security benefits for retired workers .....	25,620	149,280
52	Exclusion of interest on life insurance savings .....	25,150	140,630
60	Deductibility of State and local property tax on owner-occupied homes .....	22,320	140,630
153	Self-Employed plans .....	19,580	112,200
151	Individual Retirement Accounts .....	19,650	100,080
64	Exception from passive loss rules for \$25,000 of rental loss .....	15,380	99,810
82	Deduction for US production activities .....	14,500	81,080
1	Exclusion of benefits and allowances to armed forces personnel .....	14,900	68,980
135	Deductibility of medical expenses .....	9,910	63,170
122	Exclusion of employee meals and lodging (other than military) .....	10,290	53,240
123	Child credit .....	18,390	53,130
164	Social Security benefits for disabled workers .....	8,230	45,110
145	Exclusion of workers' compensation benefits .....	7,790	42,970
65	Credit for low-income housing investments .....	7,380	39,300
133	Self-employed medical insurance premiums .....	5,970	37,760
7	Expensing of research and experimentation expenditures (normal tax method) .....	5,070	33,270
2	Exclusion of income earned abroad by U.S. citizens .....	5,800	32,160
166	Exclusion of veterans death benefits and disability compensation .....	5,650	31,210
111	Deductibility of charitable contributions (education) .....	4,610	27,470
100	Lifetime Learning tax credit .....	3,920	27,210
139	Deductibility of charitable contributions (health) .....	4,490	26,970
136	Exclusion of interest on hospital construction bonds .....	4,280	26,890
99	HOPE tax credit .....	580	23,710
4	Inventory property sales source rules exception .....	3,730	22,140
71	Treatment of qualified dividends .....	21,900	21,900
165	Social Security benefits for spouses, dependents and survivors .....	3,890	20,190
80	Graduated corporation income tax rate (normal tax method) .....	3,300	18,670
107	Exclusion of interest on bonds for private nonprofit educational facilities .....	2,900	18,230
85	Exclusion of reimbursed employee parking expenses .....	3,290	17,970
98	Exclusion of scholarship and fellowship income (normal tax method) .....	3,290	17,690
162	Earned income tax credit .....	3,155	17,162
159	Additional deduction for the elderly .....	2,780	16,600
75	Carryover basis of capital gains on gifts .....	2,070	16,440
8	Credit for increasing research activities .....	4,230	14,190
101	Lifetime Learning tax credit .....	13,710	13,710
110	Parental personal exemption for students age 19 or over .....	2,800	13,410
16	Energy investment credit .....	1,510	12,210
134	Medical Savings Accounts / Health Savings Accounts .....	2,070	11,820
138	Credit for employee health insurance expenses of small business. ....	1,750	11,680
154	Premiums on group term life insurance .....	2,120	11,020
105	Qualified Tuition Programs .....	1,890	10,390
15	New technology credit .....	1,900	9,330
57	Exclusion of interest on owner-occupied mortgage subsidy bonds .....	1,460	9,170



**Table 17-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT—Continued**  
(In millions of dollars)

	Provision	2013	2013-17
157	Special ESOP rules .....	1,700	9,100
118	Employer provided child care exclusion .....	1,580	8,970
140	Tax credit for orphan drug research .....	1,120	8,520
58	Exclusion of interest on rental housing bonds .....	1,240	7,790
61	Deferral of income from installment sales .....	1,350	7,300
124	Credit for child and dependent care expenses .....	1,620	7,040
10	Excess of percentage over cost depletion, fuels .....	1,260	6,860
168	Exclusion of GI bill benefits .....	1,190	6,710
173	Deferral of interest on U.S. savings bonds .....	1,250	6,650
3	Exclusion of certain allowances for Federal employees abroad .....	1,120	6,210
51	Exemption of credit union income .....	1,160	6,130
90	Exclusion of interest for airport, dock, and similar bonds .....	970	6,130
79	Expensing of certain small investments (normal tax method) .....	940	6,040
152	Low and moderate income savers credit .....	1,130	5,510
103	Deductibility of student-loan interest .....	900	5,130
31	30% credit for residential purchases/installations of solar and fuel cells .....	1,030	5,000
128	Exclusion of parsonage allowances .....	770	4,520
47	Capital gains treatment of certain income .....	830	4,310
93	New markets tax credit .....	930	4,280
106	Exclusion of interest on student-loan bonds .....	660	4,130
146	Exclusion of public assistance benefits (normal tax method) .....	750	4,010
73	Capital gains exclusion of small corporation stock .....	280	3,850
56	Exclusion of interest spread of financial institutions .....	600	3,730
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities .....	580	3,640
66	Accelerated depreciation on rental housing (normal tax method) .....	90	3,480
120	Assistance for adopted foster children .....	560	3,230
40	Tax incentives for preservation of historic structures .....	570	3,170
86	Exclusion for employer-provided transit passes .....	560	3,170
141	Special Blue Cross/Blue Shield deduction .....	590	3,130
36	Excess of percentage over cost depletion, nonfuel minerals .....	590	3,040
97	Tribal Economic Development Bonds .....	480	3,040
9	Expensing of exploration and development costs, fuels .....	790	2,950
115	Qualified school construction bonds .....	580	2,530
92	Empowerment zones, Enterprise communities, and Renewal communities .....	460	2,330
143	Distributions from retirement plans for premiums for health and long-term care insurance .....	360	2,200
19	Tax credit and deduction for clean-fuel burning vehicles .....	180	2,110
81	Exclusion of interest on small issue bonds .....	340	2,110
127	Exclusion of certain foster care payments .....	400	1,980
161	Deductibility of casualty losses .....	350	1,980
167	Exclusion of veterans pensions .....	340	1,960
155	Premiums on accident and disability insurance .....	360	1,830
23	Credit for investment in clean coal facilities .....	410	1,710
39	Expensing of multiperiod timber growing costs .....	280	1,520
144	Exclusion of railroad retirement system benefits .....	290	1,260
116	Work opportunity tax credit .....	620	1,190
54	Tax exemption of certain insurance companies owned by tax-exempt organizations .....	210	1,080
20	Exclusion of utility conservation subsidies .....	210	1,020
88	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities .....	230	1,000
45	Expensing of certain multiperiod production costs .....	170	900
42	Industrial CO <sub>2</sub> capture and sequestration tax credit .....	60	840
121	Adoption credit and exclusion .....	380	730
33	Advanced Energy Property Credit .....	380	700
108	Credit for holders of zone academy bonds .....	180	700
44	Expensing of certain capital outlays .....	110	660
148	Exclusion of military disability pensions .....	130	660
91	Exemption of certain mutuals' and cooperatives' income .....	120	620
26	Amortize all geological and geophysical expenditures over 2 years .....	160	480

**Table 17-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT—Continued**  
(In millions of dollars)

	Provision	2013	2013-17
48	Income averaging for farmers .....	90	480
102	Education Individual Retirement Accounts .....	80	480
30	Credit for energy efficient appliances .....	140	460
25	Natural gas distribution pipelines treated as 15-year property .....	90	440
13	Capital gains treatment of royalties on coal .....	80	430
38	Capital gains treatment of certain timber income .....	80	430
50	Expensing of reforestation expenditures .....	80	430
35	Expensing of exploration and development costs, nonfuel minerals .....	70	420
21	Credit for holding clean renewable energy bonds .....	70	350
76	Ordinary income treatment of loss from small business corporation stock sale .....	60	300
156	Income of trusts to finance supplementary unemployment benefits .....	40	300
67	Discharge of mortgage indebtedness .....	250	250
70	Exceptions from imputed interest rules .....	50	250
95	Credit to holders of Gulf Tax Credit Bonds .....	50	240
158	Additional deduction for the blind .....	40	240
17	Alcohol fuel credits .....	110	210
27	Allowance of deduction for certain energy efficient commercial building property .....	100	210
14	Exclusion of interest on energy facility bonds .....	30	200
53	Special alternative tax on small property and casualty insurance companies .....	40	200
147	Exclusion of special benefits for disabled coal miners .....	40	200
83	Special rules for certain film and TV production .....	80	160
87	Tax credit for certain expenditures for maintaining railroad tracks .....	80	160
32	Qualified energy conservation bonds .....	30	150
55	Small life insurance company deduction .....	30	150
169	Exclusion of interest on veterans housing bonds .....	20	140
12	Exception from passive loss limitation for working interests in oil and gas properties .....	30	130
109	Exclusion of interest on savings bonds redeemed to finance educational expenses .....	20	130
43	Deduction for endangered species recovery expenditures .....	20	120
46	Treatment of loans forgiven for solvent farmers .....	20	100
49	Deferral of gain on sale of farm refiners .....	20	100
84	Deferral of tax on shipping companies .....	20	100
89	Investment credit for rehabilitation of structures (other than historic) .....	20	100
114	Discharge of student loan indebtedness .....	20	100
125	Credit for disabled access expenditures .....	20	100
34	Advanced nuclear power production credit .....	0	80
28	Credit for construction of new energy efficient homes .....	20	70
41	Exclusion of gain or loss on sale or exchange of certain brownfield sites .....	30	40
112	Exclusion of employer-provided educational assistance .....	40	40
160	Tax credit for the elderly and disabled .....	10	40
11	Alternative fuel production credit .....	10	10
142	Tax credit for health insurance purchased by certain displaced and retired individuals .....	10	10
6	Deferred taxes for financial firms on certain income earned overseas .....	0	0
18	Bio-Diesel and small agri-biodiesel producer tax credits .....	0	0
29	Credit for energy efficiency improvements to existing homes .....	0	0
96	Recovery Zone Bonds .....	0	0
104	Deduction for higher education expenses .....	0	0
113	Special deduction for teacher expenses .....	0	0
117	Welfare-to-work tax credit .....	0	0
119	Employer-provided child care credit .....	0	0
129	Employee retention credit for employers affected by Hurricane Katrina, Rita, and Wilma .....	0	0
130	Exclusion for benefits provided to volunteer EMS and firefighters .....	0	0
131	Making work pay tax credit .....	0	0
171	Build America Bonds .....	0	0
94	Expensing of environmental remediation costs .....	-170	-730
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy .....	-180	-820
69	Cancellation of indebtedness .....	-20	-1,100

**Table 17-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2013-2017 PROJECTED REVENUE EFFECT—Continued**  
(In millions of dollars)

	Provision	2013	2013-17
24	Temporary 50% expensing for equipment used in the refining of liquid fuels .....	530	-3,020
67	Credit for homebuyer .....	-1,150	-3,140
137	Refundable Premium Assistance Tax Credit .....	0	-10,510
77	Accelerated depreciation of buildings other than rental housing (normal tax method) .....	-7,370	-35,790

- Noncorporate tax rates vary by level of income.
- Individual tax rates, including brackets, standard deduction, and personal exemptions, are allowed to vary with marital status.
- Values of assets and debt are not generally adjusted for inflation. A comprehensive income tax would adjust the cost basis of capital assets and debt for changes in the general price level. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).

Although the reference law and normal tax baselines are generally similar, areas of difference include:

*Tax rates.* The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first \$10 million of corporate income are thus regarded as a tax expenditure under the normal tax. By convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

*Income subject to the tax.* Income subject to tax is defined as gross income less the costs of earning that in-

**Table 17-4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2011**  
(In millions of dollars)

	Provision	2011 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method) .....	24,420
7	Expensing of research and experimentation expenditures (normal tax method) .....	3,400
21	Credit for holding clean renewable energy bonds .....	310
9	Expensing of exploration and development costs - fuels .....	280
35	Expensing of exploration and development costs - nonfuels .....	60
39	Expensing of multiperiod timber growing costs .....	120
45	Expensing of certain multiperiod production costs - agriculture .....	230
44	Expensing of certain capital outlays - agriculture .....	150
50	Expensing of reforestation expenditures .....	30
52	Deferral of income on life insurance and annuity contracts .....	19,240
66	Accelerated depreciation on rental housing .....	8,100
77	Accelerated depreciation of buildings other than rental .....	-10,990
78	Accelerated depreciation of machinery and equipment .....	27,085
79	Expensing of certain small investments (normal tax method) .....	190
108	Credit for holders of zone academy bonds .....	160
65	Credit for low-income housing investments .....	6,580
105	Deferral for state prepaid tuition plans .....	4,300
149	Exclusion of pension contributions - employer plans .....	82,920
150	Exclusion of 401(k) contributions .....	89,190
151	Exclusion of IRA contributions and earnings .....	1,290
151	Exclusion of Roth earnings and distributions .....	3,570
151	Exclusion of non-deductible IRA earnings .....	140
153	Exclusion of contributions and earnings for Self-Employed plans .....	3,380
170	Exclusion of interest on public-purpose bonds .....	18,720
	Exclusion of interest on non-public purpose bonds .....	6,320
173	Deferral of interest on U.S. savings bonds .....	260

come. Under the reference tax rules, gross income does not include gifts defined as receipts of money or property that are not consideration in an exchange nor does gross income include most transfer payments from the Government.<sup>2</sup> The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference and normal tax baselines.<sup>3</sup>

*Capital recovery.* Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allowance for property is computed using estimates of economic depreciation.

*Treatment of foreign income.* Both the normal and reference tax baselines allow a tax credit for foreign income taxes paid (up to the amount of U.S. income taxes that would otherwise be due), which prevents double taxation of income earned abroad. Under the normal tax method, however, controlled foreign corporations (CFCs) are not regarded as entities separate from their controlling U.S. shareholders. Thus, the deferral of tax on income received by CFCs is regarded as a tax expenditure under this method. In contrast, except for tax haven activities, the reference law baseline follows current law in treating CFCs as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under this baseline, deferral of tax on CFC income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized, income.

### Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this chapter follow. These descriptions relate to current law as of December 31, 2011. Legislation enacted in 2011 extended and expanded the work opportunity credit to employers for hiring unemployed veterans, as well as changed the calculation of modified Adjusted Gross Income (AGI) in determining certain federal health care program eligibility.

<sup>2</sup> Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

<sup>3</sup> In the case of individuals who hold “passive” equity interests in businesses, the pro-rata shares of sales and expense deductions reportable in a year are limited. A passive business activity is defined generally to be one in which the holder of the interest, usually a partnership interest, does not actively perform managerial or other participatory functions. The taxpayer may generally report no larger deductions for a year than will reduce taxable income from such activities to zero. Deductions in excess of the limitation may be taken in subsequent years, or when the interest is liquidated. In addition, costs of earning income may be limited under the Alternative Minimum Tax.

### National Defense

**1. *Benefits and allowances to Armed Forces personnel.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. As an example, a rental voucher of \$100 is (approximately) equal in value to \$100 of cash income. In contrast to this treatment, certain housing and meals, in addition to other benefits provided military personnel, either in cash or in kind, as well as certain amounts of pay related to combat service, are excluded from income subject to tax.

**2. *Income earned abroad.***—Under the baseline tax system, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to \$80,000, plus adjustments for inflation since 2004, in foreign earned income from U.S. taxes. In addition, if these taxpayers receive a specific allowance for foreign housing from their employers, then they may also exclude such expenses to the extent that they do not exceed 30 percent of the earned income inclusion, with geographical adjustments, over 16 percent of the earned income limit. If taxpayers do not receive a specific allowance for housing expenses, they may deduct housing expenses up to the amount by which foreign earned income exceeds their foreign earned income exclusion.

**3. *Exclusion of certain allowances for Federal employees abroad.***—In general, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as an allowance for the high cost of living abroad. In contrast to this treatment, U.S. Federal civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income certain special allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses such as rent, education, and the cost of travel to and from the United States.

**4. *Sales source rule exceptions.***—The United States generally taxes the worldwide income of U.S. persons, with taxpayers receiving a credit for foreign taxes paid, limited to the pre-credit U.S. tax on the foreign source income. In contrast, the sales source rules for inventory property allow U.S. exporters to use more foreign tax credits by allowing the exporters to attribute a larger portion of their earnings abroad than would be the case if the allocation of earnings was based on actual economic activity.

**5. *Income of U.S.-controlled foreign corporations.***—The United States generally taxes the worldwide income of U.S. persons and business entities. In contrast,



certain active income of foreign corporations controlled by U.S. shareholders is not subject to U.S. taxation when it is earned. The income becomes taxable only when the controlling U.S. shareholders receive dividends or other distributions from their foreign stockholding. The reference law tax baseline reflects this tax treatment where only realized income is taxed. Under the normal tax method, however, the currently attributable foreign source pre-tax income from such a controlling interest is considered to be subject to U.S. taxation, whether or not distributed. Thus, the normal tax method considers the amount of controlled foreign corporation income not yet distributed to a U.S. shareholder as tax-deferred income.

**6. Exceptions under subpart F for active financing income.**—The United States generally taxes the worldwide income of U.S. persons and business entities. It would not allow the deferral of tax or other relief targeted at particular industries or activities. In contrast, under current law, financial firms may defer taxes on income earned overseas in an active business.

### General Science, Space, and Technology

**7. Expensing R&E expenditures.**—Research and experimentation (R&E) projects can be viewed as investments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference law baseline tax system would allow of expensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

**8. R&E credit.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows an R&E credit of 20 percent of qualified research expenditures in excess of a base amount.

The base amount is generally determined by multiplying a “fixed-base percentage” by the average amount of the company’s gross receipts for the prior four years. The taxpayer’s fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers can elect the alternative simplified credit regime, which is equal to 14 percent (12 percent prior to 2009) of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. Prior to January 1, 2009, taxpayers could also elect an alternative incremental credit regime. Under the alternative incremental credit regime the taxpayer was assigned a three-tiered fixed base percentage that is lower than the fixed-base percentage that would otherwise apply, and the credit rate was reduced. The rates for the alternative incremental credit ranged from 3 percent to 5 percent. The research credit expired on December 31, 2011.

### Energy

**9. Exploration and development costs.**—Under the baseline tax system, the costs of exploring and developing oil and gas wells would be capitalized and then amortized (or depreciated) over an estimate of the economic life of the well. This insures that the net income from the well is measured appropriately each year.

In contrast to this treatment, current law allows intangible drilling costs for successful investments in domestic oil and gas wells (such as wages, the cost of using machinery for grading and drilling, and the cost of unsalvageable materials used in constructing wells) to be deducted immediately, i.e., expensed. Because it allows recovery of costs sooner, expensing is more generous for the taxpayer than would be amortization. Integrated oil companies may deduct only 70 percent of such costs and must amortize the remaining 30 percent over five years. The same rule applies to the exploration and development costs of surface stripping and the construction of shafts and tunnels for other fuel minerals.

**10. Percentage depletion.**—The baseline tax system would allow recovery of the costs of developing certain oil and mineral properties using cost depletion. Cost depletion is similar in concept to depreciation, in that the costs of developing or acquiring the asset are capitalized and then gradually reduced over an estimate of the asset’s productive life, as is appropriate for measuring net income.

In contrast, the Tax Code generally allows independent fuel and mineral producers and royalty owners to take percentage depletion deductions rather than cost depletion on limited quantities of output. Under percentage depletion, taxpayers deduct a percentage of gross income from mineral production. In certain cases the deduction is limited to a fraction of the asset’s net income. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment’s cost.

**11. Alternative fuel production credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit of \$3 per oil-equivalent barrel of production (in 2004 dollars) for coke or coke gas during a four-year period for qualified facilities. With the exception of liquefied hydrogen, these facilities must be placed in service before January 1, 2011.

**12. Oil and gas exception to passive loss limitation.**—The baseline tax system accepts current law’s general rule limiting taxpayers’ ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate, and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities.

Passive losses that are unused may be carried forward and applied against future passive income.

An exception from the passive loss limitation is provided for a working interest in an oil or gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to the interest. Thus, taxpayers can deduct losses from such working interests against nonpassive income without regard to whether they materially participate in the activity.

**13. Capital gains treatment of royalties on coal.**—For individuals in 2011, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains. Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

**14. Energy facility bonds.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of certain energy facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

**15. Energy production credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit for certain electricity produced from wind energy, biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, or qualified hydropower and sold to an unrelated party. In addition to the electricity production credit, an income tax credit is allowed for the production of refined coal and Indian coal at qualified facilities.

**16. Energy investment credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides credits for investments in solar and geothermal energy property, qualified fuel cell power plants, stationary microturbine power plants, geothermal heat pumps, small wind property and combined heat and power property. Owners of renewable power facilities that qualify for the energy production credit may instead elect to take an energy investment credit.

**17. Alcohol fuel credits.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides an income tax credit

for ethanol derived from renewable sources and used as fuel. In lieu of the alcohol mixture credit, the taxpayer may claim a refundable excise tax credit. In addition, small ethanol producers are eligible for a separate income tax credit for ethanol production and a separate income tax credit is available for qualified cellulosic biofuel production. With the exception of the cellulosic biofuel credit, these provisions expired on December 31, 2011.

**18. Bio-Diesel tax credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows an income tax credit for bio-diesel used or sold and for bio-diesel derived from virgin sources. In lieu of the bio-diesel credit, the taxpayer may claim a refundable excise tax credit. In addition, small agri-biodiesel producers are eligible for a separate income tax credit for ethanol production and a separate credit is available for qualified renewable diesel fuel mixtures. This provision expired on December 31, 2011.

**19. Credit for alternative motor vehicles and refueling property.**—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a number of credits for certain types of vehicles and property. These are available for alternative fuel vehicle refueling property, fuel cell vehicles and plug-ins (including plug-in electric vehicles, plug-in electric drive motor vehicles, and plug-in conversion kits). The credits for advanced lean burn technology, and for hybrid and alternative motor vehicles, expired on December 31, 2010, while the credit for non-hydrogen refueling stations expired on December 31, 2011.

**20. Exclusion of utility conservation subsidies.**—The baseline tax system generally takes a comprehensive view of taxable income that includes a wide variety of (measurable) accretions to wealth. In certain circumstances, public utilities offer rate subsidies to non-business customers who invest in energy conservation measures. These rate subsidies are equivalent to payments from the utility to its customer, and so represent accretions to wealth, income, that would be taxable to the customer under the baseline tax system. In contrast, the Tax Code exempts these subsidies from the non-business customer's gross income.

**21. Credit to holders of clean renewable energy bonds.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides for the issuance of Clean Renewable Energy Bonds which entitles the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009-2010 is \$2.4 billion. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable.

**22. Deferral of gain from dispositions of transmission property to implement FERC restructuring policy.**—The baseline tax system generally would tax

gains from sale when realized. However, the Tax Code allows utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company. The sale of property must be made prior to January 1, 2012.

**23. Credit for investment in clean coal facilities.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides investment tax credits for clean coal facilities producing electricity and for industrial gasification combined cycle projects.

**24. Temporary 50 percent expensing for equipment used in the refining of liquid fuels.**—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. However, the Tax Code provides for an accelerated recovery of the cost of certain investments in refineries by allowing partial expensing of the cost, thereby giving such investments a tax advantage.

**25. Natural gas distribution pipelines treated as 15-year property.**—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over time. However, the Tax Code allows depreciation of natural gas distribution pipelines (placed in service between 2005 and 2011) over a 15 year period. These deductions are accelerated relative to deductions based on economic depreciation.

**26. Amortize all geological and geophysical expenditures over two years.**—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over time. However, the Tax Code allows geological and geophysical expenditures incurred in connection with oil and gas exploration in the United States to be amortized over two years for non-integrated oil companies.

**27. Allowance of deduction for certain energy efficient commercial building property.**—The baseline tax system would not allow deductions in addition to normal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a deduction, per square foot, for certain energy efficient commercial buildings.

**28. Credit for construction of new energy efficient homes.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows contractors a tax credit of \$2,000 for the construction of a qualified new energy-efficient home that has an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption of a comparable dwelling unit. The credit equals \$1,000 in the case of a new manufactured home that meets a 30 percent standard. This provision expired on December 31, 2011.

**29. Credit for energy efficiency improvements to existing homes.**—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides an investment tax credit for expenditures made on insulation, exterior windows, and doors that improve the energy efficiency of homes and meet certain standards. The Tax Code also provides a credit for purchases of advanced main air circulating fans, natural gas, propane, or oil furnaces or hot water boilers, and other qualified energy efficient property. This provision expired on December 31, 2011.

**30. Credit for energy efficient appliances.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides tax credits for the manufacture of efficient dishwashers, clothes washers, and refrigerators. The size of the credit depends on the efficiency of the appliance. This provision expired on December 31, 2011.

**31. Credit for residential energy efficient property.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides a credit for the purchase of a qualified photovoltaic property and solar water heating property, as well as for fuel cell power plants, geothermal heat pumps and small wind property.

**32. Credit for qualified energy conservation bonds.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides for the issuance of energy conservation bonds which entitle the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009-2010 is \$3.2 billion. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable.

**33. Advanced energy property credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides a 30 percent investment credit for property used in a qualified advanced energy manufacturing project. The Treasury Department may award up to \$2.3 billion in tax credits for qualified investments.

**34. Advanced nuclear power facilities production credit.**—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit equal to 1.8 cents times the number of kilowatt hours of electricity produced at a qualifying advanced nuclear power facility. A taxpayer may claim no more than \$125 million per 1,000 MW of capacity. The Treasury Department may allocate up to 6,000 megawatts of credit-eligible capacity.



## Natural Resources and Environment

35. **Exploration and development costs.**—The baseline tax system allows the taxpayer to deduct the depreciation of an asset according to the decline in its economic value over time. However, certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

36. **Percentage depletion.**—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. Under current law, however, most nonfuel mineral extractors may use percentage depletion (whereby the deduction is fixed as a percentage of revenue and can exceed total costs) rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulfur to 5 percent for sand and gravel. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment's cost.

37. **Sewage, water, solid and hazardous waste facility bonds.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of sewage, water, or hazardous waste facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

38. **Capital gains treatment of certain timber.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. However, under current law certain timber sales can be treated as a capital gain rather than ordinary income and therefore subject to the lower capital-gains tax rate. For individuals in 2011, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

39. **Expensing multi-period timber growing costs.**—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, most of the production costs of growing timber may be expensed under current law rather than capitalized and deducted when the timber is sold, thereby accelerating cost recovery.

40. **Historic preservation.**—The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent under current law for certified rehabilitation activities. The taxpayer's recoverable basis must be reduced by the amount of the credit.

Qualified GO (Gulf Opportunity) Zone expenditures qualify for a 26 percent credit.

41. **Exclusion of gain or loss on sale or exchange of certain brownfield sites.**—In general, a tax-exempt organization must pay taxes on income from activities unrelated to its nonprofit status. The Tax Code, however, provides a special exclusion from unrelated business taxable income of the gain or loss from the sale or exchange of certain qualifying brownfield properties.

42. **Industrial CO<sub>2</sub> capture and sequestration tax credit.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit of \$20 per metric ton for qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit of \$10 per metric ton of qualified carbon dioxide that is captured at a qualified facility and as a tertiary injectant in a qualified enhanced oil or natural gas recovery project.

43. **Deduction for endangered species recovery expenditures.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, under current law farmers can deduct up to 25 percent of their gross income for expenses incurred as a result of site and habitat improvement activities that will benefit endangered species on their farm land, in accordance with site specific management actions included in species recovery plans approved pursuant to the Endangered Species Act of 1973.

## Agriculture

44. **Expensing certain capital outlays.**—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, farmers may expense certain expenditures for feed and fertilizer as well as for soil and water conservation measures as well as other capital improvements under current law.

45. **Expensing multi-period livestock and crop production costs.**—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. However, the production of livestock and crops with a production period greater than two years (e.g., establishing orchards or constructing barns) is exempt from the uniform cost capitalization rules, thereby accelerating cost recovery.

46. **Loans forgiven solvent farmers.**—The baseline tax system requires debtors to include the amount of loan forgiveness as income or else reduce their recoverable basis in the property related to the loan. If the amount of forgiveness exceeds the basis, the excess forgiveness is taxable. However, for bankrupt debtors, the amount of loan forgiveness reduces carryover losses, unused credits, and then basis, with the remainder of the forgiven debt excluded from taxation.

47. **Capital gains treatment of certain income.**—For individuals in 2011, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's



income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 15 percent. Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 15 percent maximum tax rate on capital gains. . Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

**48. *Income averaging for farmers.***—The baseline tax system generally taxes all earned income each year at the rate determined by the income tax. However, taxpayers may average their taxable income from farming and fishing over the previous three years.

**49. *Deferral of gain on sales of farm refiners.***—The baseline tax system generally subjects capital gains to taxes the year that they are realized. However, the Tax Code allows a taxpayer who sells stock in a farm refiner to a farmers' cooperative to defer recognition of the gain if the proceeds are re-invested in a qualified replacement property.

**50. *Expensing of reforestation expenditures.***—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. In contrast, the Tax Code provides for the expensing of the first \$10,000 in reforestation expenditures with 7-year amortization of the remaining expenses.

### Commerce and Housing

This category includes a number of tax expenditure provisions that also affect economic activity in other functional categories. For example, provisions related to investment, such as accelerated depreciation, could be classified under the energy, natural resources and environment, agriculture, or transportation categories.

**51. *Credit union income exemption.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. However, in the Tax Code the earnings of credit unions not distributed to members as interest or dividends are exempt from the income tax.

**52. *Deferral of income on life insurance and annuity contracts.***—Under the baseline tax system, individuals and corporations pay taxes on their income when it is (actually or constructively) received or accrued, depending on their method of accounting. Nevertheless, the Tax Code provides favorable tax treatment for investment income earned within qualified life insurance and annuity contracts. In general, investment income earned on qualified life insurance contracts held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is generally tax-deferred. Investment income earned on annuities benefits from tax deferral.

**53. *Small property and casualty insurance companies.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, stock non-life insurance companies are generally exempt from tax if their gross receipts for the taxable year do not exceed \$600,000 and more than 50 percent of such gross receipts consists of premiums. Mutual non-life insurance companies are generally tax-exempt if their annual gross receipts do not exceed \$150,000 and more than 35 percent of gross receipts consist of premiums. Also, non-life insurance companies with no more than \$1.2 million of annual net premiums may elect to pay tax only on their taxable investment income.

**54. *Insurance companies owned by exempt organizations.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Generally the income generated by life and property and casualty insurance companies is subject to tax, albeit by special rules. Insurance operations conducted by such exempt organizations as fraternal societies, voluntary employee benefit associations, and others, however, are exempt from tax.

**55. *Small life insurance company deduction.***—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. However, under current law small life insurance companies (with gross assets of less than \$500 million) can deduct 60 percent of the first \$3 million of otherwise taxable income. The deduction phases out for otherwise taxable income between \$3 million and \$15 million.

**56. *Exclusion of interest spread of financial institutions.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Consumers and non-profit organizations pay for some deposit-linked services, such as check cashing, by accepting a below-market interest rate on their demand deposits. If they received a market rate of interest on those deposits and paid explicit fees for the associated services, they would pay taxes on the full market rate and (unlike businesses) could not deduct the fees. The Government thus foregoes tax on the difference between the risk-free market interest rate and below-market interest rates on demand deposits, which under competitive conditions should equal the value added of deposit services.

**57. *Mortgage housing bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance homes purchased by first-time, low-to-moderate-income buyers

to be exempt. These bonds are generally subject to the State private-activity-bond annual volume cap.

**58. Rental housing bonds.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local government bonds used to finance multi-family rental housing projects to be tax-exempt.

**59. Interest on owner-occupied homes.**—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services and also allows the owner-occupant to deduct mortgage interest paid on his or her primary and secondary residences as an itemized non-business deduction. In general, the mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence, and is also limited to interest on debt of no more than \$1 million. Interest on up to \$100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the total debt does not exceed the fair market value of the residence. As an alternative to the deduction, holders of qualified Mortgage Credit Certificates issued by State or local governmental units or agencies may claim a tax credit equal to a proportion of their interest expense.

**60. Taxes on owner-occupied homes.**—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services and also allows the owner-occupant to deduct property taxes paid on his or her primary and secondary residences.

**61. Installment sales.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. Dealers in real and personal property (i.e., sellers who regularly hold property for sale or resale) cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers (i.e., sellers of real property used in their business) are required to pay interest on deferred taxes attributable to their total installment obligations in excess of \$5 million. Only properties with sales prices exceeding \$150,000 are includable in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with total installment obligations of less than \$5 million is, therefore, a tax expenditure.

**62. Capital gains exclusion on home sales.**—The baseline tax system would not allow deductions and exemptions for certain types of income. In contrast, the Tax Code allows homeowners to exclude from gross income up to \$250,000 (\$500,000 in the case of a married couple fil-

ing a joint return) of the capital gains from the sale of a principal residence. To qualify, the taxpayer must have owned and used the property as the taxpayer's principal residence for a total of at least two of the five years preceding the date of sale. In addition, the exclusion may not be used more than once every two years.

**63. Imputed net rental income on owner-occupied housing.**—Under the baseline tax system, the taxable income of a taxpayer who is an owner-occupant would include the implicit value of gross rental income on housing services earned on the investment in owner-occupied housing and would allow a deduction for expenses, such as interest, depreciation, property taxes, and other costs, associated with earning such rental income. In contrast, the Tax Code allows an exclusion from taxable income for the implicit gross rental income on housing services, while in certain circumstances allows a deduction for some costs associated with such income, such as for mortgage interest and property taxes.

**64. Passive loss real estate exemption.**—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income.

In contrast to the general restrictions on passive losses, the Tax Code exempts owners of rental real estate activities from "passive income" limitations. The exemption is limited to \$25,000 in losses and phases out for taxpayers with income between \$100,000 and \$150,000.

**65. Low-income housing credit.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, under current law taxpayers who invest in certain low-income housing are eligible for a tax credit. The credit rate is set so that the present value of the credit is equal to 70 percent for new construction and 30 percent for (1) housing receiving other Federal benefits (such as tax-exempt bond financing), or (2) substantially rehabilitated existing housing. The credit can exceed these levels in certain statutorily defined and State designated areas where project development costs are higher. The credit is allowed in equal amounts over 10 years and is generally subject to a volume cap.

**66. Accelerated depreciation of residential rental property.**—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the rental property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures

under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

**67. Discharge of mortgage indebtedness.**—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of indebtedness of up to \$2 million (\$1 million in the case of a married individual filing a separate return) from a qualified principal residence. The provision applies to debt discharged after January 1, 2007, and before January 1, 2013.

**68. Credit for homebuyer.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit for home buyers on purchases before May 1, 2010.

**69. Cancellation of indebtedness.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law individuals are not required to report the cancellation of certain indebtedness as current income. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

**70. Imputed interest rules.**—Holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when paid. In addition, the amount of interest accrued is determined by the actual price paid, not by the stated principal and interest stipulated in the instrument. In general, any debt associated with the sale of property worth less than \$250,000 is excepted from the general interest accounting rules. This general \$250,000 exception is not a tax expenditure under reference law but is under normal law. Exceptions above \$250,000 are a tax expenditure under reference law; these exceptions include the following: (1) sales of personal residences worth more than \$250,000, and (2) sales of farms and small businesses worth between \$250,000 and \$1 million.

**71. Treatment of qualified dividends.**—For individuals in 2011, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, in 2011 qualified dividends were taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, dividends will be taxed as ordinary income.

**72. Capital gains (other than agriculture, timber, and coal).**—For individuals in 2011, tax rates on regular income vary from 10 percent to 35 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax

rates to apply to certain types or sources of income. In contrast, in 2011 capital gains on assets held for more than one year were taxed at a preferentially low rate that is no higher than 15 percent. Beginning in 2013, the top preferential tax rate on capital gains will be 20 percent.

**73. Capital gains exclusion for small business stock.**—The baseline tax system would not allow deductions and exemptions to certain types of income. In contrast, the Tax Code provides an exclusion of 50 percent (from a 28 percent tax rate) for capital gains from qualified small business stock held by individuals for more than 5 years; 75 percent for stock issued after February 17, 2009 and before September 28, 2010; and 100 percent for stock issued after September 27, 2010 and before January 1, 2012. A qualified small business is a corporation whose gross assets do not exceed \$50 million as of the date of issuance of the stock.

**74. Step-up in basis of capital gains at death.**—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift. In contrast, capital gains on assets held at the owner's death are not subject to capital gains tax under current law. The cost basis of the appreciated assets is adjusted to the market value at the owner's date of death.

**75. Carryover basis of capital gains on gifts.**—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift. In contrast, when a gift of appreciated asset is made under current law, the donor's basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries over to the donee. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

**76. Ordinary income treatment of losses from sale of small business corporate stock shares.**—The baseline tax system limits to \$3,000 the write-off of losses from capital assets, with carryover of the excess to future years. In contrast, the Tax Code allows up to \$100,000 in losses from the sale of small business corporate stock (capitalization less than \$1 million) to be treated as ordinary losses and fully deducted.

**77. Depreciation of non-rental-housing buildings.**—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

**78. Accelerated depreciation of machinery and equipment.**—Under an economic income tax, the costs of acquiring machinery and equipment are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the



reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

**79. Expensing of certain small investments.**—Under the reference law baseline, the costs of acquiring tangible property and computer software would be depreciated using the Tax Code's depreciation provisions. Under the normal tax baseline, depreciation allowances are estimates of economic depreciation. However, the Tax Code allows qualifying investments by small businesses in tangible property and certain computer software to be expensed rather than depreciated over time.

**80. Graduated corporation income tax rate schedule.**—Because the corporate rate schedule is part of reference tax law, it is not considered a tax expenditure under the reference method. A flat corporation income tax rate is taken as the baseline under the normal tax method; therefore the lower rate is considered a tax expenditure under this concept.

**81. Small issue industrial development bonds.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on small issue industrial development bonds (IDBs) issued by State and local governments to finance manufacturing facilities to be tax exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

**82. Deduction for U.S. production activities.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows for a deduction equal to a portion of taxable income attributable to domestic production.

**83. Special rules for certain film and TV production.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law taxpayers may deduct up to \$15 million per production (\$20 million in certain distressed areas) in non-capital expenditures incurred during the year.

### Transportation

**84. Deferral of tax on U.S. shipping companies.**—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes, primarily construction, modernization and major repairs to ships, and re-

payment of loans to finance these investments. U.S. shipping companies may choose to be subject to a tonnage tax based on gross shipping weight in lieu of an income tax, in which case profits would not be subject to tax under the regular tax rate schedule.

**85. Exclusion of employee parking expenses.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2012, the maximum amount of the parking exclusion will be \$240 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

**86. Exclusion of employee transit pass expenses.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. The American Recovery and Reinvestment Act of 2009 ("ARRA," Pub. L. 111-5) included a provision that equalized the maximum exclusion amount for these expenses with the maximum exclusion amount for employee parking expenses. This parity provision was to sunset on December 31, 2010, but was extended by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("TRUIRJCA," Pub. L. 111-312) through December 31, 2011. The maximum amount of the exclusion in 2012 is set at \$125 per month.

**87. Tax credit for certain expenditures for maintaining railroad tracks.**—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law eligible taxpayers may claim a credit equal to the lesser of 50 percent of maintenance expenditures and the product of \$3,500 and the number of miles of track owned or leased.

**88. Exclusion of interest on bonds for financing of highway projects and rail-truck transfer facilities.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code provides for \$15 billion of tax-exempt bond authority to finance qualified highway or surface freight transfer facilities. The authority to issue these bonds expires on December 31, 2015.

### Community and Regional Development

**89. Rehabilitation of structures.**—The baseline tax system would uniformly tax all returns to invest-



ments and not allow credits for particular activities, investments, or industries. However, the Tax Code allows a 10-percent investment tax credit for the rehabilitation of buildings that are used for business or productive activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit. Qualified GO Zone expenditures qualify for a 13 percent credit.

**90. Airport, dock, and similar facility bonds.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds issued to finance high-speed rail facilities and Government-owned airports, docks, wharves, and sport and convention facilities to be tax-exempt. These bonds are not subject to a volume cap.

**91. Exemption of income of mutuals and cooperatives.**—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. In contrast, the Tax Code provides for the incomes of mutual and cooperative telephone and electric companies to be exempt from tax if at least 85 percent of their revenues are derived from patron service charges.

**92. Empowerment zones and renewal communities.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, under current law qualifying businesses in designated economically depressed areas can receive tax benefits such as an employer wage credit, increased expensing of investment in equipment, special tax-exempt financing, accelerated depreciation, and certain capital gains incentives. A taxpayer's ability to accrue new tax benefits for Empowerment Zones and the DC Enterprise Zone expired December 31, 2011. A taxpayer's ability to accrue new tax benefits for Renewal Communities expired December 31, 2009.

**93. New markets tax credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law taxpayers who make qualified equity investments in a community development entity (CDE), which then makes qualified investments in low-income communities, are eligible for a tax credit received over 7 years. A CDE must first receive an allocation of tax credit from Treasury before it can sell the tax credit to the investor in exchange for the equity investment. The total equity investment available for the credit across all CDEs is \$5 billion in 2011, the last year for which allocations can be made.

**94. Expensing of environmental remediation costs.**—Under the baseline tax system, the costs would be amortized (or depreciated) over an estimate of the economic life of the building. This insures that the net income from the buildings is measured appropriately each year. However, the Tax Code allows taxpayers who clean up certain hazardous substances at a qualified site to expense the clean-up costs, even though the expenses will

generally increase the value of the property significantly or appreciably prolong the life of the property.

**95. Credit to holders of Gulf and Midwest Tax Credit Bonds.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, under current law taxpayers that own Gulf and Midwest Tax Credit bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income.

**96. Recovery Zone Bonds.**—The baseline tax system would not allow credits for particular activities, investments, or industries. In addition, it would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows local governments to issue up \$10 billion in taxable Recovery Zone Economic Development Bonds in 2009 and 2010 and receive a direct payment from Treasury equal to 45 percent of interest expenses. In addition, they would be allowed to allocate up to \$15 billion in tax exempt Recovery Zone Facility Bonds. These bonds finance certain kinds of business development in areas of economic distress.

**97. Tribal Economic Development Bonds.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code was modified in 2009 to allow Indian tribal governments to issue tax exempt "tribal economic development bonds." There is a national bond limitation of \$2 billion.

### Education, Training, Employment, and Social Services

**98. Scholarship and fellowship income.**—Scholarships and fellowships are excluded from taxable income to the extent they pay for tuition and course-related expenses of the grantee. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income. From an economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are rebates of educational costs. Thus, under the baseline tax system of the reference law method, this exclusion is not a tax expenditure because this method does not include either gifts or price reductions in a taxpayer's gross income. The exclusion, however, is considered a tax expenditure under the normal tax method, which includes gift-like transfers of Government funds in gross income (many scholarships are derived directly or indirectly from Government funding).

**99. HOPE tax credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable HOPE tax credit allows a credit for 100 percent of an eligible student's first \$1,200 of tuition and fees and 50 percent of the next \$1,200 of tuition and fees (dollar amounts are for 2011). The credit only covers tuition and fees paid during the first two years of a student's

post-secondary education. In 2011, the credit is phased out ratably for taxpayers with modified AGI between \$102,000 and \$122,000 if married filing jointly (\$51,000 and \$61,000 for other taxpayers), indexed.

100. **Lifetime Learning tax credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable Lifetime Learning tax credit allows a credit for 20 percent of an eligible student's tuition and fees, up to a maximum credit per return of \$2,000. In 2011, the credit is phased out ratably for taxpayers with modified AGI between \$102,000 and \$122,000 if married filing jointly (\$51,000 and \$61,000 for other taxpayers), indexed. The credit applies to both undergraduate and graduate students.

101. **American Opportunity Tax Credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the American Opportunity tax credit allows a partially refundable credit of up to \$2,500 per eligible student for qualified tuition and related expenses paid during each of the first four years of the student's post-secondary education. The credit is phased out for taxpayers with modified adjusted gross income between \$80,000 and \$90,000 (\$160,000 and \$180,000 for married taxpayers filing a joint return). The credit is available for qualified expenses incurred in tax years beginning on or after January 1, 2009 and on or before December 31, 2012.

102. **Education Individual Retirement Accounts (IRA).**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Contributions to an education IRA are not tax-deductible. However, investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student's education expenses. The maximum contribution to an education IRA in 2011 is \$2,000 per beneficiary. In 2011, the maximum contribution is phased down ratably for taxpayers with modified AGI between \$190,000 and \$220,000 if married filing jointly (\$95,000 and \$110,000 for other taxpayers).

103. **Student-loan interest.**—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to \$2,500 on interest paid on an education loan. In general, interest may only be deducted for the first five years in which interest payments are required, and the maximum deduction is phased down ratably for taxpayers with modified AGI between \$60,000 and \$75,000 if married filing jointly (\$40,000 to \$55,000 for other taxpayers), indexed from 2001. However, for tax years beginning on January 1, 2001 and before December 31, 2011, the first five year requirement is suspended, and the phase down range for the deduction is raised. In 2011, the maximum deduction is phased down ratably for taxpayers with modified AGI between \$120,000 and \$150,000 if married filing jointly (\$60,000 and \$75,000 for other taxpayers).

104. **Deduction for higher education expenses.**—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides a maximum annual deduction of \$4,000 in 2011 for qualified higher education expenses for taxpayers with adjusted gross income up to \$130,000 on a joint return (\$65,000 for other taxpayers). Taxpayers with adjusted gross income up to \$160,000 on a joint return (\$80,000 for other taxpayers) may deduct up to \$2,000. This provision expired on December 31, 2011.

105. **Qualified tuition programs.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Some States have adopted prepaid tuition plans, prepaid room and board plans, and college savings plans, which allow persons to pay in advance or save for college expenses for designated beneficiaries. Under current law, investment income, or the return on prepayments, is not taxed when earned, and is tax-exempt when withdrawn to pay for qualified expenses.

106. **Student-loan bonds.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, interest earned on State and local bonds issued to finance student loans is tax-exempt under current law. The volume of all such private activity bonds that each State may issue annually is limited.

107. **Bonds for private nonprofit educational institutions.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local Government bonds issued to finance the construction of facilities used by private nonprofit educational institutions is not taxed.

108. **Credit for holders of zone academy bonds.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. Under current law, the total amount of zone academy bonds that may be issued is limited to \$1.4 billion in 2009 and 2010 as of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable. An additional \$0.4 billion of these bonds with a tax credit was authorized to be issued before January 1, 2011.

109. **U.S. savings bonds for education.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses.

The tax exemption is phased out for taxpayers with AGI between \$106,650 and \$136,650 if married filing jointly (\$71,000 and \$86,100 for other taxpayers) in 2011.

**110. *Dependent students age 19 or older.***—Under the baseline tax system, a personal exemption for the taxpayer is allowed. However, additional exemptions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers to claim personal exemptions for dependent children who are over the age of 18 and under the age of 24 and who (1) reside with the taxpayer for over half the year (with exceptions for temporary absences from home, such as for school attendance), (2) are full-time students, and (3) do not claim a personal exemption on their own tax returns.

**111. *Charitable contributions to educational institutions.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to nonprofit educational institutions. Moreover, taxpayers who donate capital assets to educational institutions can deduct the asset's current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

**112. *Employer-provided educational assistance.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, employer-provided educational assistance is excluded from an employee's gross income even though the employer's costs for this assistance are a deductible business expense. The maximum exclusion is \$5,250 per taxpayer.

**113. *Special deduction for teacher expenses.***—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law educators in both public and private elementary and secondary schools, who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, may subtract up to \$250 of qualified expenses when figuring their adjusted gross income (AGI). This provision expired on December 31, 2011.

**114. *Discharge of student loan indebtedness.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, the Tax Code allows certain professionals who perform in underserved areas or specific fields, and as a consequence have their student loans discharged, not to recognize such discharge as income.

**115. *Qualified school construction bonds.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national vol-

ume limit is \$22.4 billion over 2009 and 2010. As of March 2010, issuers of such bonds could opt to receive direct payment with the yield becoming fully taxable.

**116. *Work opportunity tax credit (WOTC).***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who begin work on or before December 31, 2011 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is \$2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a \$9,000 maximum. Employees must work at least 120 hours to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed. The credit was extended to certain recently discharged unemployed veterans through December 31, 2012 with a maximum credit of \$9,600 for hiring eligible veterans.

**117. *Welfare-to-work tax credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, under current law an employer is eligible for a tax credit on the first \$20,000 of eligible wages paid to qualified long-term family assistance recipients during the first two years of employment. The welfare-to-work credit expired on December 31, 2006. After this date, long-term welfare recipients became a WOTC target group.

**118. *Employer-provided child care exclusion.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law up to \$5,000 of employer-provided child care is excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.

**119. *Employer-provided child care credit.***—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, current law provides a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by the amount of the credit. The maximum total credit is limited to \$150,000 per taxable year.

**120. *Assistance for adopted foster children.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and var-



ied needs and a reimbursement of up to \$2,000 for non-recurring adoption expenses; special needs adoptions receive the maximum benefit even if that amount not spent. These payments are excluded from gross income under current law.

**121. Adoption credit and exclusion.**—The baseline tax system would not allow credits for particular activities. Instead, taxpayers can receive a refundable tax credit for qualified adoption expenses under current law. The maximum credit is \$13,360 per child for 2011, and is phased-out ratably for taxpayers with modified AGI between \$182,520 and \$222,520. The credit amounts and the phase-out thresholds are indexed for inflation. Taxpayers may also exclude qualified adoption expenses provided or reimbursed by an employer from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the benefits of the exclusion and the tax credit for different expenses.

**122. Employer-provided meals and lodging.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law employer-provided meals and lodging are excluded from an employee's gross income even though the employer's costs for these items are a deductible business expense.

**123. Child credit.**—The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, taxpayers with children under age 17 can qualify for a \$1,000 partially refundable per child credit. Any unclaimed credit due to insufficient tax liability may be refundable — taxpayers may claim a refund for 15 percent of earnings in excess of a \$3,000 floor, up to the amount of unused credit. Alternatively, taxpayers with three or more children may claim a refund of the amount of payroll taxes paid in excess of EITC received (up to the amount of unused credit) if this results in a larger refund. The maximum credit declines to \$500 in 2013 and later years and refundability is restricted to taxpayers who are eligible for the credit under the alternative calculation. The credit is phased out for taxpayers at the rate of \$50 per \$1,000 of modified AGI above \$110,000 (\$75,000 for single or head of household filers and \$55,000 for married taxpayers filing separately).

**124. Child and dependent care expenses.**—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides parents who work or attend school and who have child and dependent care expenses a tax credit. In 2011, expenditures up to a maximum \$3,000 for one dependent and \$6,000 for two or more dependents are eligible for the credit. The credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of \$15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each \$2,000 of income in excess of \$15,000.

**125. Disabled access expenditure credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the

Tax Code provides small businesses (less than \$1 million in gross receipts or fewer than 31 full-time employees) a 50-percent credit for expenditures in excess of \$250 to remove access barriers for disabled persons. The credit is limited to \$5,000.

**126. Charitable contributions, other than education and health.**—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to charitable, religious, and certain other nonprofit organizations. Taxpayers who donate capital assets to charitable organizations can deduct the assets' current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

**127. Foster care payments.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Foster parents provide a home and care for children who are wards of the State, under contract with the State. However, compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

**128. Parsonage allowances.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a clergyman's taxable income for the value of the clergyman's housing allowance or the rental value of the clergyman's parsonage.

**129. Provide an employee retention credit to employers affected by certain natural disasters.** -- The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides tax credits against the wages paid to eligible employees in selected areas affected by natural disasters such as hurricanes Katrina, Rita, Wilma, and Ike. This provision expired on December 31, 2009.

**130. Exclusion for benefits provided to volunteer EMS and firefighters.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income of certain rebates or reductions of state and local income and property taxes provided by states or localities if the taxpayer is a member of a volunteer emergency response organization. The Tax Code also allows an exclusion from taxable income of certain payments such as reimbursements for expenses or equipment allowances of up to \$360 per year provided by states or localities on account of performance of services as a member of a volunteer emergency response organization. This provision expired on December 31, 2010.



131. **Making work pay tax credit.**—The baseline tax system would not allow credits for particular activities. In contrast, the Tax Code was modified in 2009 to provide for a tax credit in 2009 and 2010 of the lesser of 6.2 percent of an individual's earned income or \$400 (\$800 for joint filers). It is phased out at a rate of 2 percent of modified AGI above \$75,000 (\$150,000 for joint filers).

## Health

132. **Employer-paid medical insurance and expenses.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law, employer-paid health insurance premiums and other medical expenses (including long-term care) are deducted as a business expense by employers, but they are not included in employee gross income.

133. **Self-employed medical insurance premiums.**—Under the baseline tax system, all compensation and remuneration, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law self-employed taxpayers may deduct their family health insurance premiums. Taxpayers without self-employment income are not eligible for this special deduction. The deduction is not available for any month in which the self-employed individual is eligible to participate in an employer-subsidized health plan and the deduction may not exceed the self-employed individual's earned income from self-employment.

134. **Medical and health savings accounts.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures. In contrast, individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2011, \$3,050 for taxpayers with individual coverage and \$6,150 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

135. **Medical care expenses.**—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible. For tax years beginning after 2012, only medical expenditures exceeding 10 percent of the taxpayer's adjusted gross income are deductible. However, for the years 2013, 2014, 2015 and 2016, if ei-

ther the taxpayer or the taxpayer's spouse turns 65 before the end of the taxable year, the threshold remains at 7.5 percent of adjusted income.

136. **Hospital construction bonds.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government debt issued to finance hospital construction is excluded from income subject to tax.

137. **Refundable Premium Assistance Tax Credit.**—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, for taxable years ending after 2013, the Tax Code provides a premium assistance credit to any eligible taxpayer for any qualified health insurance purchased through a Health Insurance Exchange. In general, an eligible taxpayer is a taxpayer with annual household income between 100% and 400% of the federal poverty level for a family of the taxpayer's size and that does not have access to affordable minimum essential health care coverage. The amount of the credit equals the lesser of (i) the actual premiums paid by the taxpayer for such coverage or (ii) the difference between the cost of a statutorily-identified benchmark plan offered on the exchange and a required payment by the taxpayer that increases with income.

138. **Credit for employee health insurance expenses of small business.**—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to qualified small employers that make a certain level of non-elective contributions towards the purchase of certain health insurance coverage for its employees. To receive a credit, an employer must have fewer than 25 full-time-equivalent employees whose average annual full-time-equivalent wages from the employer are less than \$50,000 (indexed for taxable years after 2013). However, to receive a full credit, an employer must have no more than 10 full-time employees, and the average wage paid to these employees must be no more than \$25,000 (indexed for taxable years after 2013). A qualifying employer may claim the credit for any taxable year beginning in 2010, 2011, 2012, and 2013 and for up to two years for insurance purchased through a Health Insurance Exchange thereafter. For taxable beginning in 2010, 2011, 2012, and 2013, the maximum credit is 35 percent of premiums paid by qualified taxable employers and 25 percent of premiums paid by qualified tax-exempt organizations. For taxable years beginning in 2014 and later years, the maximum tax credit will increase to 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

139. **Charitable contributions to health institutions.**—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides individuals and corporations a deduction for contributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to

other charitable institutions are listed under the education, training, employment, and social services function.

140. **Orphan drugs.**—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, under current law drug firms can claim a tax credit of 50 percent of the costs for clinical testing required by the Food and Drug Administration for drugs that treat rare physical conditions or rare diseases.

141. **Blue Cross and Blue Shield.**—The baseline tax system generally would tax all profits under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided exceptions from otherwise applicable insurance company income tax accounting rules that substantially reduce their tax liabilities, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees is not less than 85 percent for the taxable year.

142. **Tax credit for health insurance purchased by certain displaced and retired individuals.**—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Trade Act of 2002 provides a refundable tax credit of 65 percent for the purchase of health insurance coverage by individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients. The American Recovery and Reinvestment Act and a subsequent extension increased the credit to 80 percent in coverage months preceding March 2011. The Trade Adjustment Assistance Extension Act of 2011 extended an enhanced credit of 72.5% through December 2013, but eliminated the credit entirely beginning January 1, 2014.

143. **Distributions for premiums for health and long-term care insurance.**—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Tax Code provides for tax-free distributions of up to \$3,000 from governmental retirement plans for premiums for health and long term care premiums of public safety officers.

### Income Security

144. **Railroad retirement benefits.**—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, railroad retirement benefits are not generally subject to the income tax unless the recipient's gross income reaches a certain threshold under current law. The threshold is discussed more fully under the Social Security function.

145. **Workers' compensation benefits.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, workers compensation, al-

though income to the recipients, are not subject to the income tax under current law.

146. **Public assistance benefits.**—Under the reference law baseline tax system, gifts and transfers are not treated as income to the recipients. In contrast, the normal tax method considers cash transfers from the Government as part of the recipients' income, and thus, treats the exclusion for public assistance benefits under current law as tax expenditure.

147. **Special benefits for disabled coal miners.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, disability payments to former coal miners out of the Black Lung Trust Fund, although income to the recipient, are not subject to the income tax.

148. **Military disability pensions.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, most of the military pension income received by current disabled retired veterans is excluded from their income subject to tax.

149. **Employer-provided pension contributions and earnings.**—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law certain contributions to defined benefit pension plans are excluded from an employee's gross income even though employers can deduct their contributions. In addition, the tax on the investment income earned by defined benefit pension plans is deferred until the money is withdrawn.

150. **401(k) type plans.**—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers and employers can make tax-preferred contributions to certain types of employer-provided 401(k) plans (and 401(k)-type plans like 403(b) plans and the Federal Government's Thrift Savings Plan). In 2011, an employee could exclude up to \$16,500 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to \$22,000 in contributions (indexed). The 401(k)-type plan contribution limit including both employee and employer contributions is \$49,000 in 2011 (indexed). The tax on contributions made by both employees and employers and the investment income earned by 401(k)-type plans is deferred until withdrawn.

151. **Individual Retirement Accounts (IRAs).**—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can take advantage of traditional and Roth IRAs to defer or otherwise reduce the tax on the return to their retirement savings. The IRA contribution limit is \$5,000 in 2011 (indexed); taxpayers age 50 or over are allowed to make additional "catch-up" contributions of \$1,000. Contributions to a traditional IRA are generally deductible but the deduction is phased out for

workers with incomes above certain levels who, or whose spouses, are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Individuals who make nondeductible contributions to a traditional IRA can still benefit from deferral of tax on earnings. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation. Income limits also apply to Roth IRA contributions; however, taxpayers at any income level may roll account balances from traditional IRAs into Roth IRAs, after paying income tax on any deduction and accrued income.

**152. *Low and moderate-income savers' credit.***—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to \$2,000. This credit is in addition to any deduction or exclusion. The credit is completely phased out by \$56,500 for joint filers, \$42,375 for head of household filers, and \$28,250 for other filers in 2011.

**153. *Self-Employed plans.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law self-employed individuals can make deductible contributions to their own retirement plans equal to 25 percent of their income, up to a maximum of \$49,000 in 2011. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by self-employed SEP, SIMPLE, and qualified plans is deferred until withdrawn.

**154. *Employer-provided life insurance benefits.***—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law employer-provided life insurance benefits are excluded from an employee's gross income even though the employer's costs for the insurance are a deductible business expense, but only to the extent that the employer's share of the total costs does not exceed the cost of \$50,000 of such insurance.

**155. *Employer-provided accident and disability benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, employer-provided accident and disability benefits are excluded from an employee's gross income even though the employer's costs for the benefits are a deductible business expense.

**156. *Employer-provided supplementary unemployment benefits.***—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Employers may establish trusts to pay supplemental unemployment benefits to employees separated from employment. Investment income earned by such trusts is exempt from taxation.

**157. *Employer Stock Ownership Plan (ESOP) provisions.***—ESOPs are a special type of tax-exempt

employee benefit plan. Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. In addition, the following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: (1) annual employer contributions are subject to less restrictive limitations than other qualified retirement plans; (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by his payment (deductible by him) of a portion of wages (excludable by the employees) to service the loan; (3) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; and (4) dividends paid to ESOP-held stock are deductible by the employer.

**158. *Additional deduction for the blind.***—Under the baseline tax system, the standard deduction is allowed. However, additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional \$1,450 standard deduction if single, or \$1,150 if married in 2011.

**159. *Additional deduction for the elderly.***—Under the baseline tax system, the standard deduction is allowed. However, additional standard deductions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional \$1,450 standard deduction if single, or \$1,150 if married in 2011.

**160. *Tax credit for the elderly and disabled.***—Under the baseline tax system, a credit targeted at a specific group within a given filing status or for particular activities would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years of age or older, or who are permanently disabled, to claim a tax credit equal to 15 percent of the sum of their earned and retirement income. The amount to which the 15 percent rate is applied is limited to no more than \$5,000 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older and disabled, and up to \$7,500 for joint returns where both spouses are 65 years of age or older and disabled. These limits are reduced by one-half of the taxpayer's adjusted gross income over \$7,500 for single individuals and \$10,000 for married couples filing a joint return.

**161. *Casualty losses.***—Under the baseline tax system, neither the purchase of property nor insurance premiums to protect its value are deductible as costs of earning income. Therefore, reimbursement for insured loss of such property is not included as a part of gross income, and uninsured losses are not deductible. In contrast, the Tax Code provides a deduction for uninsured casualty and theft losses of more than \$100 each, to the extent that total losses during the year exceed 10 percent of the taxpayer's adjusted gross income.



162. **Earned income tax credit (EITC).**—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 45 percent of income. For a family with one qualifying child, the credit is 34 percent of the first \$9,100 of earned income in 2011. The credit is 40 percent of the first \$12,780 of income for a family with two or more qualifying children. The credit is 45 percent of the first \$12,780 of income for a family with three or more qualifying children. Low-income workers with no qualifying children are eligible for a 7.65 percent credit on the first \$5,980 of earned income. The credit is phased out at income levels and rates which depend upon how many qualifying children are eligible and marital status. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals.

### Social Security

163. **Social Security benefits for retired workers.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Thus, the portion of Social Security benefits that is attributable to employer contributions and earnings on employer and employee contributions (and not attributable to employee contributions) would be subject to tax. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions from previously taxed income. Actuarially, previously taxed contributions generally do not exceed 15 percent of benefits, even for retirees receiving the highest levels of benefits. Up to 85 percent of recipients' Social Security and tier 1 railroad retirement benefits are included in (phased into) the income tax base if the recipient's provisional income exceeds certain base amounts. (Provisional income is equal to other items included in adjusted gross income plus foreign or U.S. possession income, tax-exempt interest, and one half of Social Security and tier 1 railroad retirement benefits.) The untaxed portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable is counted as a tax expenditure.

164. **Social Security benefits for the disabled.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for disability are fully or partially excluded from a beneficiary's gross incomes. (See provision number 163, Social Security benefits for retired workers.)

165. **Social Security benefits for dependents and survivors.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they

represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for dependents and survivors are fully or partially excluded from a beneficiary's gross income.

### Veterans Benefits and Services

166. **Veterans death benefits and disability compensation.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. In contrast, all compensation due to death or disability paid by the Veterans Administration is excluded from taxable income under current law.

167. **Veterans pension payments.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, pension payments made by the Veterans Administration are excluded from gross income.

168. **G.I. Bill benefits.**—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

169. **Tax-exempt mortgage bonds for veterans.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law, interest earned on general obligation bonds issued by State and local governments to finance housing for veterans is excluded from taxable income.

### General Government

170. **Public purpose State and local bonds.**—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government bonds issued to finance public-purpose construction (e.g., schools, roads, sewers), equipment acquisition, and other public purposes is tax-exempt. Interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax-exempt.

171. **Build America Bonds.**—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code in 2009 allowed State and local governments to issue taxable bonds and receive a direct payment from Treasury equal to 35 percent of interest expenses. Alternatively, State and local governments may issue taxable bonds and



the private lenders receive the 35 percent credit which is included in taxable income.

**172. *Deductibility of certain nonbusiness State and local taxes.***—Under the baseline tax system, a deduction for personal consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for State and local income taxes (or, at the taxpayer's election, state and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible. The

election to deduct sales taxes instead of income taxes expires at the end of 2011.

### Interest

**173. *U.S. savings bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow an exemption or deferral for particular activities, investments, or industries. In contrast, taxpayers may defer paying tax on interest earned on U.S. savings bonds until the bonds are redeemed.

## APPENDIX

### Performance Measures and the Economic Effects of Tax Expenditures

The Government Performance and Results Act of 1993 (GPRA) directs Federal agencies to develop annual and strategic plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Most of these objectives are achieved through direct expenditure programs. Tax expenditures – spending programs implemented through the tax code by reducing tax obligations for certain activities -- contribute to achieving these goals in a manner similar to direct expenditure programs.

Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available.<sup>4</sup> Because there is an existing public administrative and private compliance structure for the tax system, income based programs that require little oversight might be efficiently run through the tax system. In addition, some tax expenditures actually simplify the operation of the tax system (for example, the exclusion for up to \$500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities in a manner similar to direct expenditures. For example, exempting employer-sponsored health insurance from income taxation is equivalent to a direct spending subsidy equal to the forgone tax obligations for this type of compensation. Spending, regulatory or tax-disincentive policies can also modify behavior, but may have different economic effects. Finally, a variety of tax expenditure tools can be used, e.g., deductions; credits; exemptions; deferrals; floors; ceilings; phase-ins; phase-outs; and these can be dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range of policy instruments means that tax

expenditures can be flexible and can have very different economic effects.

Tax expenditures also have limitations. In many cases they add to the complexity of the tax system, which raises both administrative and compliance costs. For example, personal exemptions, deductions, credits, and phase-outs can complicate filing and decision-making. The income tax system may have little or no contact with persons who have no or very low incomes, and does not require information on certain characteristics of individuals used in some spending programs, such as wealth or duration of employment. These features may reduce the effectiveness of tax expenditures for addressing socioeconomic disparities. Tax expenditures also generally do not enable the same degree of agency discretion as an outlay program. For example, grant or direct Federal service delivery programs can prioritize activities to be addressed with specific resources in a way that is difficult to emulate with tax expenditures.

Outlay programs have advantages where the direct provision of government services is particularly warranted, such as equipping and maintaining the armed forces or administering the system of justice. Outlay programs may also be specifically designed to meet the needs of low-income families who would not otherwise be subject to income taxes or need to file a tax return. Outlay programs may also receive more year-to-year oversight and fine tuning through the legislative and executive budget process. In addition, many different types of spending programs include direct Government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts provide flexibility for policy design. On the other hand, certain outlay programs may rely less directly on economic incentives and private-market provision than tax incentives, thereby reducing the relative efficiency of spending programs for some goals. Finally, spending programs, particularly on the discretionary side, may respond less rapidly to changing activity levels and economic conditions than tax expenditures.

Regulations may have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor), generally in the

<sup>4</sup> Although this chapter focuses upon tax expenditures under the income tax, tax expenditures also arise under the unified transfer, payroll, and excise tax systems. Such provisions can be useful when they relate to the base of those taxes, such as excise tax exemption for certain types of consumption deemed meritorious.

private sector. Regulations can also be fine-tuned more quickly than tax expenditures because they can often be changed as needed by the Executive Branch without legislation. Like tax expenditures, regulations often rely largely on voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives. This reliance can diminish their economic efficiency, although this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are not of paramount importance. Also, regulations generally do not directly affect Federal outlays or receipts. Thus, like tax expenditures, they may escape the degree of scrutiny that outlay programs receive. Some policy objectives are achieved using multiple approaches. For example, minimum wage legislation, the earned income tax credit, and the food stamp program (SNAP) are regulatory, tax expenditure, and direct outlay programs, respectively, all having the objective of improving the economic welfare of low-wage workers and families.

### **A Framework for Evaluating the Effectiveness of Tax Expenditures**

Across all major budgetary categories – from housing and health to space, technology, agriculture, and national defense tax expenditures make up a significant portion of Federal activity and affect every area of the economy. For these reasons, a comprehensive evaluation framework that examines incentives, direct results, and spillover effects will benefit the budgetary process by informing decisions on tax expenditure policy.

As described above, tax expenditures, like spending and regulatory programs, have a variety of objectives and economic effects. These include: encouraging certain types of activities (e.g., saving for retirement or investing in certain sectors); increasing certain types of after-tax income (e.g., favorable tax treatment of Social Security income); and reducing private compliance costs and Government administrative costs (e.g., the exclusion for up to \$500,000 of capital gains on home sales). Some of these objectives are well suited to quantitative measurement and evaluation, while others are less well suited.

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the revenue effect. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs. Evaluations assess whether programs are meeting intended goals, but may also encompass analyzing whether initiatives are superior to other policy alternatives.

The Administration is working towards examining the objectives and effects of the wide range of tax expendi-

tures in our budget, despite challenges related to data availability, measurement, and analysis. Evaluations include an assessment of whether tax expenditures are achieving intended policy results in an efficient manner, with minimal burdens on individual taxpayers, consumers, and firms; and an examination of possible unintended effects and their consequences.

As an illustration of how evaluations can inform budgetary decisions, consider education and research and investment credits.

*Education.* There are millions of individuals taking advantage of tax credits designed to help pay for educational expenses. There are a number of different credits available as well as other important forms of Federal support for higher education such as subsidized loans and grants. An evaluation would explore the possible relationships between use of the credits and the use of loans and grants, seeking to answer, for examples, whether the use of credits reduce or increase the likelihood of the students applying for loans. Such an evaluation would allow stakeholders to determine the most effective program – whether it is a tax credit, a subsidized loan, or a grant.

*Investment.* A series of tax expenditures reduce the cost of investment, both in specific activities such as research and experimentation, extractive industries, and certain financial activities and more generally throughout the economy, through accelerated depreciation for plant and equipment. These provisions can be evaluated along a number of dimensions. For example, it is useful to consider the strength of the incentives by measuring their effects on the cost of capital (the return which investments must yield to cover their costs) and effective tax rates. The impact of these provisions on the amounts of corresponding forms of investment (e.g., research spending, exploration activity, equipment) might also be estimated. In some cases, such as research, there is evidence that the investment can provide significant positive externalities—that is, economic benefits that are not reflected in the market transactions between private parties. It could be useful to quantify these externalities and compare them with the size of tax expenditures. Measures could also indicate the effects on production from these investments such as numbers or values of patents, energy production and reserves, and industrial production. Issues to be considered include the extent to which the preferences increase production (as opposed to benefiting existing output) and their cost-effectiveness relative to other policies. Analysis could also consider objectives that are more difficult to measure but still are ultimate goals, such as promoting the Nation's technological base, energy security, environmental quality, or economic growth. Such an assessment is likely to involve tax analysis as well as consideration of non-tax matters such as market structure, scientific, and other information (such as the effects of increased domestic fuel production on imports from various regions, or the effects of various energy sources on the environment).

The tax proposals subject to these analyses include items that indirectly affect the estimated value of tax expenditures (such as changes in income tax rates), proposals that make reforms to improve tax compliance and

administration, as well as proposals which would change, add, or delete tax expenditures.

*Barriers to Evaluation.* Developing a framework that is sufficiently comprehensive, accurate, and flexible is a significant challenge. Evaluations are constrained by the availability of appropriate data and challenges in economic modeling:

1. **Data availability.** Data may not exist, or may not exist in an analytically appropriate form, to conduct rigorous evaluations of certain types of expenditures. For example, measuring the effects of tax expenditures designed to achieve tax neutrality for individuals and firms earning income abroad, and foreign firms could require data from foreign governments or firms which are not readily available.

2. **Analytical constraints.** Evaluations of tax expenditures face analytical constraints even when data are available. For example, individuals might have access to several tax expenditures and programs aimed at improving the same outcome. Isolating the effect of a single tax credit is challenging absent a well-specified research design.

3. **Resources.** Tax expenditure analyses are seriously constrained by staffing considerations. Evaluations typically require expert analysts who are often engaged in other more competing areas of work related to the budget.

The Executive Branch is focused on addressing these challenges in order to lay the foundation for the analysis of tax expenditures comprehensively, alongside evaluations of the effectiveness of direct spending initiatives.

### **Current Administration Proposals on Tax Expenditures**

The Administration considers performance measurement, evaluations, and the economic effects of tax expenditures each year in its deliberation for the Budget and proposals are informed by these analyses. The President's National Commission on Fiscal Responsibility and Reform submitted a report in 2010 in which they said that the income tax system is unduly complicated and that the government should "sharply reduce rates, broaden the base, simplify the tax code, and reduce the many 'tax expenditures'—another name for spending through the tax code."

The current Budget and enacted Administration policies include several proposals that would change existing tax expenditures to raise revenue, eliminate ineffective or counterproductive tax expenditures, and enhance effective tax expenditures. The tax expenditure proposals in the budget further the Administration's goals of economic recovery and growth, clean and secure energy, a world-class education for all Americans, and fairness in the tax code. Some of these proposals are highlighted below.

*Reduce the value of certain tax expenditures.* The Administration proposes to limit the tax rate at which

upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent. This limitation would affect only married taxpayers filing a joint return with income adjusted for these tax preferences of over \$250,000 (at 2009 levels) and single taxpayers with income over \$200,000 (at 2009 levels). The limit would apply to all itemized deductions, tax-exempt interest, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions, effective for taxable years beginning after December 31, 2012. These are among the largest tax expenditures. This proposal would make the tax code more equitable because the value of the tax expenditure as a percentage of the deduction is proportional to one's tax bracket, so it is less valuable to those in lower brackets.

*Reduce preferences for oil, gas, and coal.* Current law provides a number of credits and deductions that are targeted towards certain oil, gas, and coal activities. These tax preferences run counter to our policies for reducing greenhouse gas emissions. In accordance with the President's agreement at the G-20 summit in 2009 to phase out subsidies for fossil fuels so that we can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels.

*Enhance and make permanent the Research and Experimentation (R&E) credit.* The extension of this credit every year creates uncertainty reducing firms' incentive to expand their research activities. For this reason, and more generally to achieve the President's R&D goals, the Budget proposes making the R&E credit permanent.

*Make the American Opportunity Tax Credit (AOTC) Permanent.* This tax credit provides a substantial benefit to students and families in defraying the cost of college, a key Administration priority. For this reason, the Budget proposes a permanent extension of this tax expenditure.

*Extend the EITC for larger families, expand the child and dependent care tax credit, and provide for automatic enrollment in individual retirement accounts.* Although these reforms would increase the cost of these tax expenditures, they would increase the equity of the overall tax system and provide benefits to low and middle income families.

*Allow a range of tax expenditures to expire.* The Tax Reconciliation, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended many provisions of the tax code for up to two years, including many provisions identified as tax expenditures in this chapter. However, a number of provisions identified as tax expenditures were not extended. For instance, the Making Work Pay Credit, the sales tax deduction for new cars and trucks, the above-the-line deduction for property taxes up to \$500 for taxpayers who do not itemize, and the exemption from taxes for the first \$2,400 of unemployment benefits were allowed to expire.

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## SPECIAL TOPICS

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## 18. AID TO STATE AND LOCAL GOVERNMENTS

State and local governments serve a vital role in providing services to their residents. The Federal Government contributes to that role by aiding State and local governments through grants, loans, and the tax system. This chapter focuses on Federal grants-in-aid. Information on Federal credit programs may be found in Chapter 23, “Credit and Insurance,” in this volume. A detailed discussion of tax expenditures in Chapter 17, “Tax Expenditures,” in this volume, includes a display of tax expenditures that particularly aid State and local governments at the end of Tables 17-1 and 17-2.

Federal grants-in-aid most frequently consist of direct cash assistance to State and local governments, U.S. territories, and American Indian Tribal governments. Federal grants-in-aid can also include payments for grants-in-kind – non-monetary aid such as commodities purchased for the National School Lunch Program. Federal revenues shared with State and local governments are also considered grants-in-aid.

Federal grants generally fall into one of two broad categories of grants: categorical grants or block grants. However, in addition, these grants may also have characteristics of one or more other types of grants: formula grants, project grants, and matching grants. Categorical grants have a narrowly defined purpose and may be awarded on a formula basis or as a project grant. An example of a categorical grant is the Special Supplemental Nutrition Program for Women, Infants, and Children, also known as WIC, administered by the Department of Agriculture. The program targets the nutrition needs of lower-income pregnant and postpartum women, infants, and children. Applicants to this program must meet specified categorical, residential, income, and nutrition risk eligibility requirements.

Project grants are sometimes awarded competitively and are typified by a specified end product or duration. They can include grants for research, training, evaluation, planning, technical assistance, survey work, and construction.

In contrast to categorical grants, block grants provide the recipient with more latitude to define the use of the funding and are awarded on a formula basis specified in law. The Department of Health and Human Services Temporary Assistance for Needy Families (TANF) program is an example of a block grant. States may use TANF funds in a variety of ways to meet any of four purposes set out in law. Each State also has the discretion to determine eligibility requirements for TANF benefits. In addition, TANF has a matching requirement known as the “maintenance of effort” requirement which specifies a minimum that States must spend to assist low-income families in order to receive the full Federal grant.

Federal grants help State and local governments finance programs covering most areas of domestic public spending, including infrastructure, education, social services, and public safety. State and local governments may provide services directly to beneficiaries or may act as a pass through and contract with providers or make grant awards to qualified recipients. According to data from the Bureau of Economic Analysis, in calendar year 2010, one quarter of total State current expenditures was devoted to income security, 21 percent to health care, 20 percent to national security and public safety, and 15 percent to education.<sup>1</sup> Between 2001 and 2010, government spending in total at the State and local level increased 50 percent.<sup>2</sup> In each of those years, Federal grants-in-aid financed over one-fifth of State budgets on average.<sup>3</sup> In 2009 and 2010 that percentage increased to 24 and 25 percent respectively as the Federal Government provided temporary, additional aid to bolster State budgets through the worst of the recession and avoid greater cuts to State services and tax increases.<sup>4</sup>

The Federal Government used the existing grants structure to provide swift fiscal relief during the recent recession – a time when States faced severe and unforeseen economic conditions. It did so through the American Recovery and Reinvestment Act (Recovery Act), Public Law 111-5, enacted in February 2009. The Recovery Act provided enhanced grant funding in the areas of education, Medicaid, transportation, energy, water, and other programs. Most provisions of the Recovery Act expired in 2010 but some were extended in August 2010 in Public Law 111-226, an act providing education and Medicaid assistance to States. The temporary fiscal relief provided in the Recovery Act primarily accounts for the \$141.1 billion increase in Federal outlays for grants-in-aid to States from 2008 to 2010. In 2011, Federal grant outlays were \$606.8 billion; this was a \$1.6 billion decrease from 2010 reflecting the expiration of the temporary increase in the Federal share of State Medicaid costs and other provisions from the Recovery Act. Grant outlays for 2012 are estimated to increase by \$5.7 billion to \$612.4 billion. However, outlays from grants funded through annual appropriations are estimated to decrease by \$24.9 billion in 2012 from the previous year; and are estimated to de-

<sup>1</sup> U.S. Department of Commerce, Bureau of Economic Analysis (BEA), National Income and Product Accounts, Table 3.16 Government Current Expenditures by Function. BEA reports annual data on a calendar year basis. Calendar year 2010 is the most recent year for which annual data are available.

<sup>2</sup> *Ibid.*, Table 3.3. 2010 is the most recent year for which annual data are available.

<sup>3</sup> *Ibid.* 2010 is the most recent year for which annual data are available.

<sup>4</sup> National Governors Association and National Association of State Budget Officers, June 2010. “The Fiscal Survey of States.”

crease again in 2013 by \$20.5 billion.<sup>5</sup> These decreases reflect the winding down of discretionary grant spending on Recovery Act programs such as the State Fiscal Stabilization Fund as well as the enactment of caps on discretionary spending in the Budget Control Act of 2011, Public Law 112-25, which constrain appropriations of new discretionary budget authority, including appropriations for grants.<sup>6</sup>

Economic conditions at the State level are slowly improving, although for the majority of States spending and revenues are not back to pre-recession levels. According to the National Association of State Budget Officers, in State fiscal year 2011,<sup>7</sup> 38 States had higher general fund

spending than the previous year.<sup>8</sup> Some States needed to enact mid-year budget cuts in 2011; however, the number doing so was fewer than in 2010. 2012 is expected to build on this improvement with 43 States enacting fiscal year 2012 budgets with general fund expenditures greater than 2011. State general fund revenue collections are also expected to increase in fiscal year 2012, for the second year in a row. State fiscal year 2012 is expected to continue the slow improvement in State fiscal conditions that began in 2011.

The Budget provides \$632.7 billion in outlays for aid to State and local governments in 2013, an increase of \$20.2 billion from 2012. The distribution of grant spending in 2013 among functions remains similar to 2012. As shown in Table 18-1, 48 percent of this aid is for health programs, with most of the funding going to Medicaid, a program which makes health insurance accessible for low-income Americans. Beyond health programs, 17 percent of Federal aid will go to income security programs; 15 percent to education, training, and social services; and 13 percent to transportation.

<sup>5</sup> See Chapter 12, "Budget Concepts," in this volume for a discussion of discretionary spending.

<sup>6</sup> For more information on the Budget Control Act of 2011 see Chapter 12, "Budget Concepts," in this volume.

<sup>7</sup> According to the 2011 edition of *The Fiscal Survey of States*, published by the National Governors Association and the National Association of State Budget Officers, "forty-six states begin their fiscal years in July and end them in June. The exceptions are Alabama and Michigan, with October to September fiscal years; New York, with an April to March fiscal year; and Texas, with a September to August fiscal year."

<sup>8</sup> The National Governors Association and the National Association of State Budget Officers. *The Fiscal Survey of States*. Fall 2011.

## HIGHLIGHTS OF FEDERAL AID TO STATES AND LOCALITIES

The Administration is investing in areas that promote growth, job creation, and constructing an economy that is built to last. As part of that effort, the Administration is looking for ways to make programs more effective and efficient. In light of the need to make tough choices about spending, all areas are being asked to share in the sacrifice needed to put the Nation on a sustainable fiscal course. Highlights of proposals and changes in the Budget are presented below by functional category. Each section begins with the overall spending level for that category followed by a discussion of significant proposals or changes to programs in that category. The funding level for every Federal grant program can be found in Table 18-1, in this section, organized by functional category and by Federal agency. The next section, Historical Perspectives, presents a history of Federal grants-in-aid and includes Table 18-2, which illustrates trends over time. An Appendix to this chapter includes tables of State-by-State obligations of major grant programs.

### Natural Resources and Environment

Grant outlays for natural resources and environment programs are estimated to be \$6.5 billion in 2013.

The America's Great Outdoors (AGO) initiative supports Federal, State, local, and tribal conservation efforts while reconnecting Americans, particularly young people, to the outdoors. Investments for AGO programs support conservation and outdoor recreation activities nationwide that create millions of jobs, generate hundreds of millions of dollars in tax revenue, and spur billions in total national economic activity. Within the Department of the Interior (DOI), AGO programs include the operation of national parks, refuges, and public lands, which are criti-

cal for conserving natural and cultural resources, protecting wildlife, and drawing recreational tourists from across the Nation and the world. They also include grant programs that assist States, Tribes, local governments, landowners, and private groups (such as sportsmen) in preserving wildlife habitat, wetlands, historic battlefields, regional parks, and the countless other sites that form the mosaic of the Nation's cultural and natural legacy.

The Budget provides \$450 million for the Land and Water Conservation Fund (LWCF) programs in the Departments of the Interior and Agriculture. Of this amount, \$270 million is proposed to conserve lands within national parks, refuges, and forests, including \$109 million in collaborative funds for DOI and the U.S. Forest Service to jointly and strategically conserve the most critical landscapes.

The Budget addresses the environmental impacts of mining by dedicating and prioritizing funds to clean up abandoned mines. Currently, DOI charges the coal industry an abandoned mine land (AML) fee and allocates receipts to States based on production, rather than basing the allocation on the most pressing needs for cleaning up abandoned mines. The Administration proposes to target these coal AML fee receipts at the most hazardous sites through a new competitive grant allocation process with State participation. It also proposes to establish a new AML fee on hardrock mining, with receipts allocated through a competitive grant process to reclaim abandoned hardrock mines, so that the hardrock mining industry is held responsible in the same manner as the coal mining industry.

The Budget includes \$2 billion for Federal capitalization of the Environmental Protection Agency (EPA) State Revolving Funds (SRFs). This will allow the SRFs to fi-

nance over \$6 billion in wastewater and drinking water infrastructure projects annually. The Administration has strongly supported the SRFs, having received and/or requested funding for them totaling over \$18 billion since 2009; since their inception, over \$52 billion has been provided for the SRFs. EPA will work to target assistance to small and underserved communities with limited ability to repay loans, while maintaining State program integrity. Additionally, a number of systems could have access to capital through the Administration's proposed Infrastructure Bank.

In order to promote economic growth in distressed communities, the Budget continues to provide funding for the EPA's Brownfields program. Brownfields sites are lightly contaminated sites where the presence or potential presence of contamination keeps these sites from being used productively. These sites are prevalent in economically distressed communities where industries have moved out or shuttered their doors. Brownfields funding provides grants and technical assistance to these communities so that they can assess and cleanup the properties, allowing for sustainable development in partnership with environmental protections.

The Budget includes \$1.2 billion for grants to support State and Tribal implementation of delegated environmental programs. Among other changes, the support includes \$302 million in State grant funding for air programs, an increase of \$66 million to assist States in addressing additional responsibilities associated with achieving more stringent air quality standards, and \$265 million in State water pollution control grants, a \$27 million increase including \$15 million to address nutrient loadings. The Administration also proposes a \$29 million increase in funding to the Tribal General Assistance Program (Tribal GAP). Tribal GAP funding builds Tribal capacity and assists tribes in leveraging other EPA and Federal funding to contribute towards a higher level of environmental and health protection.

### Commerce and Housing Credit

Grant outlays in support of commerce and housing credit programs are estimated to be \$2.8 billion in 2013.

As part of the National Wireless Initiative proposal, \$1.2 billion in grants is proposed for grants to State and local governments in support of building a public safety broadband network. This network would provide first responders access to secure, interoperable video and voice communications.

### Transportation

Grant outlays in support of transportation programs are estimated to be \$81.9 billion in 2013.

The Budget includes a multi-year reauthorization proposal for critical highway, transit, highway safety, passenger rail, and multi-modal programs. The Administration's reauthorization proposal adopts a multi-pronged approach that underscores the importance of preserving and improving the Nation's high-

ways, bridges, and transit assets. This proposal would provide \$476 billion over six years, which together with the additional \$50 billion in 2012 detailed below, represents an increase of around 80 percent above the previous surface transportation reauthorization, plus annual appropriated funding for passenger rail funding in those years. This proposal seeks not only to fill a long-overdue funding gap, but also to reform how Federal dollars are spent to ensure that they are directed to the most effective programs. It reflects a need to balance fiscal discipline with efforts to expedite economic recovery and job creation. It emphasizes fixing existing assets, moving towards cost benefit analysis of large transportation projects, and consolidating duplicative, often-earmarked highway programs. Consistent with Administration policy, this proposal does not contain earmarks. Additionally, the reauthorization proposal will not add to the deficit, as the Budget proposes to use the "peace dividend" from ramping down military operations overseas to offset all costs. After the six-year reauthorization period, the Administration is committed to working with Congress on a financing mechanism.

To spur job growth and allow States to initiate sound multi-year investments, the Budget assumes enactment of an additional \$50 billion in transportation investments in 2012. Although infrastructure projects take time to get underway, these investments would generate hundreds of thousands of jobs in the first few years—and in industries suffering from protracted unemployment. Not only will job markets and municipal transportation programs access much-needed support in the near-term, but Federal taxpayers will reap the benefits of historically competitive pricing in construction. To help these funds flow into local communities without delay, key Federal agencies have been directed find ways to expedite permitting and approvals for infrastructure projects.

The Budget provides \$47 billion over six years to fund the development of high-speed rail and other passenger rail programs as part of an integrated national strategy. This system will provide 80 percent of Americans with convenient access to a passenger rail system, featuring high-speed service, within 25 years. The proposal includes merging Amtrak's stand-alone subsidies into the high-speed rail program as part of a larger, competitive System Preservation initiative.

Fostering livable communities—places where coordinated transportation, housing, and commercial development gives people access to affordable and environmentally sustainable transportation—is a transformational policy shift. The Administration's reauthorization proposal adopts a multi-pronged approach to help communities achieve this goal. For example, the Administration proposes to permanently authorize the TIGER program, which has supported projects like multi-modal transportation hubs (where different forms of transportation converge) and streets that accommodate pedestrian, bicycle, and transit access. The proposal also seeks to harmonize State and local planning requirements and facilitate more cooperation, and



includes competitive grant funding (\$200 million in 2012 and \$1.2 billion over six years) to improve those entities' ability to deliver sound, data-driven, and collaboratively-developed transportation plans. The Budget also includes \$108 billion for transit programs over six years, more than doubling the commitment to transit in the prior reauthorization for both existing capacity and capacity expansion. This unprecedented increase for buses, subways, and other systems of public transportation will help improve and expand travel options, cut energy use, and help make local communities more livable.

In order to ensure the highest safety standards for the U.S. pipeline system, the Budget proposes to both enhance and revamp the Department's Pipeline Safety program. The Budget increases the size of the State Pipeline Safety Grant program by 50 percent and institutes several reforms to the Federal program. It funds the first phase of a three-year effort to more than double the number of Federal pipeline safety inspectors to make certain that more pipelines are inspected on a regular basis.

In support of the President's call for spending restraint, the Budget lowers funding for the airport grants program to \$2.4 billion, a reduction of \$926 million, by eliminating guaranteed funding for large and medium hub airports. The Budget focuses Federal grants to support smaller commercial and general aviation airports that do not have access to additional or alternative sources of capital. At the same time, the Budget would allow larger airports to increase non-Federal passenger facility charges, thereby giving larger airports greater flexibility to generate their own revenue. Also, given difficult fiscal circumstances, the Budget reduces the annual grant to the Washington Metropolitan Area Transit Authority by \$15 million. The President's surface transportation plan would substantially increase overall transit funding and would benefit both the Washington area and transit systems nationwide.

### Community and Regional Development

Grant outlays for community and regional development programs are estimated to be \$20.7 billion in 2013.

The Budget provides \$220 million, a reduction of \$38 million, to the Economic Development Administration (EDA) within the Department of Commerce. The Budget supports economic development planning and projects that catalyze entrepreneurship and innovation at the regional scale, but conserves resources by trimming the amount requested for traditional public works grants, which are often funded using tax-free bonds or other Federal programs.

Americans rely on first responders to help them through crises, from natural disasters to terrorist attacks. Accordingly, the Budget provides \$2.9 billion for Department of Homeland Security (DHS) State and Local Programs to equip, train, exercise, and hire first responders. To better target these funds, the Budget proposes eliminating nine duplicative, stand-alone grant programs, consolidating them into regionally-focused grants that pri-

oritize core capabilities and are awarded based on a risk-informed, competitive process. This approach will provide greater flexibility for State and local officials to fill critical homeland security capability gaps while promoting cost-effectiveness. The proposed structure and funding levels will enable the Federal Emergency Management Agency (FEMA) to focus on the highest priority homeland security capabilities while sustaining prior State and local investments.

While the consolidated grant structure proposed in the Budget will eventually strengthen State and local capabilities through smarter regional investments, accelerating the expenditure of already-awarded grant funds will improve first responders' capabilities and grow the economy now. Working with FEMA and DHS, the President will carry out a one-time re-prioritization of \$7 billion currently in the expenditure pipeline. Similar to the successful effort that accelerated Recovery Act spending, the Administration has planned strong incentives to speed spending of State and local grant balances. Unnecessary red tape will be cut, administrative restrictions that slow spending will be relaxed, and regulatory and legislative reforms will be proposed to further reduce the backlog of unspent grants. Simultaneously, the Administration will set and enforce aggressive expiration dates for awarded grant funds, designating unexpended balances as "use or lose" to ensure first responders receive the support they need as quickly as possible.

The Budget proposes to provide \$1 billion in immediate assistance for the retention, rehiring, and hiring of firefighters in 2012, as requested in the American Jobs Act. Localities with hiring programs and policies that focus on the recruitment of post-9/11 veterans for firefighter positions would be given preference in grant awards over those that do not.

The Budget provides \$3 billion for the Community Development Block Grant (CDBG) formula program and \$1 billion for the HOME Investment Partnerships program within the Department of Housing and Urban Development (HUD). These funding levels for CDBG and HOME reflect the Administration's commitment to supporting municipalities and States as they navigate through their challenging fiscal climate. CDBG funding will allow over 1,200 State and local governments to invest in needed public infrastructure improvements, rehabilitate affordable housing, and create and retain jobs. The Budget request for HOME will provide funding to about 645 State and local governments to increase the supply of affordable housing for low-income families.

The Budget proposes \$15 billion in investments for Project Rebuild to put construction workers on the job rehabilitating and refurbishing vacant and foreclosed homes and businesses. Building on proven approaches to stabilizing neighborhoods with high concentrations of foreclosures, Project Rebuild will bring in expertise and capital from the private sector, focus on commercial and residential property improvements, and expand innovative property solutions, such as land banks.

## Education, Training, Employment, and Social Services

Grant outlays for education, training, employment, and social service programs are estimated to be \$93.4 billion in 2013.

The Budget provides \$850 million for Race to the Top (RTT), a program that has enabled States to implement systemic reforms in four fundamental areas: implementing rigorous standards and assessments; using data to improve instruction and decision-making; recruiting and retaining effective teachers and principals; and turning around the lowest-performing schools. In 2011, RTT was expanded to include the Early Learning Challenge grant competition, a joint effort with the Department of Health and Human Services, designed to support the States with the most ambitious plans to ensure that high-needs children from birth to age five enter kindergarten ready to succeed. In 2012, the Administration is building on the State-level progress of RTT by launching a district-level competition to support reforms best executed at the local level. In 2013, RTT will be poised to deepen the Administration's investments in these various areas, and address the unmet demand of States and Districts that have demonstrated a commitment to implementing comprehensive and ambitious reforms. Additional resources will be provided for the Race to the Top: Early Learning Challenge, to be paired with new investments by the Department of Health and Human Services in improving child care quality and preparing children for success in school.

Districts will continue to receive the vital resources needed to pay teacher salaries and fund other educational interventions needed to help disadvantaged students and students with disabilities succeed through sustained investments in the Title I and IDEA State Grant programs of \$14.5 billion and \$11.6 billion, respectively.

The Budget makes a number of investments to help ensure that an effective teacher is in every classroom, including a 25 percent set-aside within the new Effective Teachers and Leaders State Grants program to build evidence on ways to best recruit, prepare and support effective teachers and principals. The budget also invests \$400 million in the Teacher and Leader Innovation Fund to transform teacher and leader evaluation and compensation to reward strong teaching and support improvement. Additionally, the Administration invests \$5 billion to support States and districts that commit to bold reforms at every stage of the teaching profession.

The President's Budget recommends reauthorization and reform of the Career and Technical Education (CTE) State Grant program, currently set to expire in 2013. The Administration's \$1.1 billion reauthorization proposal would restructure CTE to align what students learn in school with the demands of 21st century jobs and create better quality programs for students. The Budget also provides new funding to scale up career academies.

Within the Department of Health and Human Services (HHS), the Budget includes over \$8 billion for Head Start and Early Head Start to serve approximately 962,000

children and families, maintaining the historic expansion undertaken in 2009-2010. The Budget similarly includes an additional \$7 billion over the next 10 years to support low-income children with child care subsidies. The Budget also continues to support reforms to the Child Care Development Block Grant and provides an additional \$300 million for States to improve child care quality, and ultimately prepare children for success in school. The Budget supports the implementation of new regulations to strengthen Head Start by requiring low-performing programs to compete for continued funding for the first time in the program's history.

The Budget also cuts and reforms the Community Services Block Grant (CSBG). CSBG provides funding for the important work of Community Action Agencies, but does not hold these agencies accountable for outcomes. The Budget provides \$350 million to fund the highest performing Community Action Agencies so that scarce taxpayer dollars are targeted to high-performing agencies that are most successful in meeting important community needs.

The 2013 Budget proposes legislation to build on the American Jobs Act by funding initiatives that aggressively address long-term unemployment and provide new opportunities to put Americans back to work. The proposal includes Reemployment NOW, a program that provides \$4.0 billion to give States flexibility to institute innovative approaches to better connect Emergency Unemployment Compensation (EUC) claimants with job opportunities. With Reemployment NOW, States will be able to implement Bridge to Work programs to give EUC claimants valuable on-the-job experience and will also be able to offer claimants wage insurance and other intensive reemployment services. This fund is paired with the Administration's support for extending federally funded benefits through December 2012. It also includes Pathways Back to Work, which invests \$12.5 million in subsidized employment and work-based training programs targeting long-term unemployed and low-income Americans. In addition, the proposal includes a Community College Initiative that provides \$8.0 billion in the Departments of Education and Labor to support State and community college partnerships with businesses to build the skills of American workers.

## Health

Grant outlays for health related programs are estimated to be \$303.2 billion in 2013.

The Budget includes \$2.4 billion, an increase of \$75 million, for the Health Resources and Services Administration's Ryan White program to expand access to care for persons living with HIV/AIDS who are otherwise unable to afford health care and related support services.

Medicaid is critically important to providing health care to the poorest in the country, including children, seniors, and individuals with disabilities. The Administration opposes efforts to turn it into a block grant and slash its funding. Instead, the Budget seeks to make Medicaid more efficient by streamlining financing and reimburse-

ment policies. For example, the Budget would implement more efficient reimbursement rates for durable medical equipment based on Medicare rates.

### Income Security

Grant outlays for income security programs are estimated to be \$106.1 billion in 2013.

At a time of continued need, the Budget provides \$7.5 billion for discretionary nutrition program support within the Department of Agriculture. This funding supports the 9.1 million individuals expected to participate in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program which is critical to the health of pregnant women, new mothers, and their infants.

The Administration also re-proposes a State option to suspend time limits on Supplemental Nutrition Assistance Program (SNAP) benefits for working-age, low-income adults without dependents for an additional fiscal year, and re-proposes to extend the availability of enhanced SNAP benefits through March 31, 2014. SNAP is the cornerstone of the Nation's food assistance safety net and touches the lives of more than 46 million people. The Administration is committed to preventing hunger by preserving access to SNAP for all eligible participants.

The Administration supports continued implementation of the Healthy, Hunger-Free Kids Act of 2010, Public Law 111-296, strengthening the child nutrition programs and increasing children's access to healthy meals and snacks.

The Budget modernizes the child support program within HHS, which touches the lives of more than half of poor children as well as many middle-class families. These policy changes, which will encourage fathers to take responsibility for their children, include: increasing financial support for States that pass through child support payments to families rather than retaining them; ending the expectation of reimbursement for payments that are distributed to families receiving TANF assistance; and encouraging States to provide access and visitation services that can improve a father's relationship with his family.

The Budget provides \$3 billion for the Low Income Home Energy Assistance Program (LIHEAP) to help struggling families make ends meet by offsetting some of their home heating and cooling costs. While the costs of fuels used by most LIHEAP households remain low, the price of home-delivered fuels, such as heating oil, has been on the rise. In response, the Budget provides an additional \$450 million over the 2012 request, and targets funds to States with vulnerable households facing high home heating costs for winter 2012-2013.

The Budget provides \$150 million for the Choice Neighborhoods Initiative within the Department of Housing and Urban Development (HUD) to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately-owned housing is located. The Budget will reach four to six neighborhoods with implementation grants that

primarily fund the preservation, rehabilitation and transformation of HUD-assisted public and privately-owned multifamily housing, and will also engage local governments, nonprofits, and for-profit developers in partnerships to improve the economic conditions in their surrounding communities.

The Budget proposes to combine the separate Operating Fund and Capital Fund programs into a single Public Housing subsidy stream. This proposed merger will simplify the program and reduce the administrative burden on State and local public housing authorities (PHAs) that own and manage these properties. As a first step towards consolidation, the Budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.

The Budget requests a total of \$6.6 billion for Public Housing, a critical investment that will help 1.1 million extremely low- to low-income households to obtain or retain decent, safe and sanitary housing. In addition, the Budget provides up to \$50 million to pilot the expansion of the successful Jobs-Plus demonstration to over 30,000 Public Housing residents.

The Budget proposes to update the Housing Opportunities for Persons with AIDS (HOPWA) program to reflect the current understanding of HIV/AIDS and housing needs. This modernization includes a new formula that will distribute HOPWA funds based on the current population of HIV-positive individuals, fair market rents, and poverty rates in order to target funds to areas with the most need. It also makes the program more flexible, giving local communities more options to provide targeted, timely, and cost-effective interventions. Competitive grant funds will also be more flexible, allowing HUD to reward high-performing grantees. The Budget's \$330 million investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay in therapy and therefore improving health outcomes for this vulnerable population.

The Budget provides \$650 million for the Native American Housing Block Grant program, which will provide much-needed funds to over 550 Tribes to help mitigate severe housing needs and overcrowding on reservations. This program is the primary source for housing on Tribal lands and provides funding for vital housing activities such as construction, rehabilitation, and operations. In addition, the Budget provides \$60 million in Indian Community Development Block Grant funding that Tribes use to improve their housing stock, create community facilities, make infrastructure improvements, and expand job opportunities.

Over the past several years, Unemployment Insurance (UI) benefits, provided through a State-Federal partnership, have helped American families stay afloat, keeping 3.2 million individuals – including nearly one million children – from falling into poverty in 2010. The American Jobs Act proposed an extension of Federally funded benefits as well as the Reemployment NOW program, which includes a number of reforms to help UI claimants get back to work quickly. The Budget

continues this support for extending Federally funded benefits through December 2012 and instituting innovative approaches to better connect UI claimants with job opportunities.

### **Administration of Justice**

Grant outlays for justice programs are estimated to be \$6.9 billion in 2013.

The Budget provides \$270 million for Juvenile Justice and Child Safety programs that assist States with their juvenile justice systems. Research indicates that more than 60 percent of children have been exposed to violence, crime, and abuse. This problem has significant consequences for individuals, families, as well as communities at large, making these Juvenile Justice and Child Safety programs an essential part of the State and local assistance portfolio. The Budget also provides \$20 million for Adam Walsh Act implementation.

The Budget provides \$257 million to support America's first responders and the hiring and retention of police officers and sheriffs' deputies across the country, and includes a preference for the hiring of post-9/11 veterans. These investments assist in building capacity to enable State and local law enforcement partners to make the most of their resources and encourage their most promising and effective public safety efforts.

The Budget also creates a Community Oriented Policing Stabilization Fund, which would provide \$4 billion in immediate assistance for the retention, rehiring, and hiring of police officers in 2012, as requested in the American Jobs Act. Under this proposal, States and localities with hiring programs and policies that focus on

the recruitment of post-9/11 veterans for law enforcement positions would be given preference in grant awards over those that do not.

The Budget provides \$413 million to continue efforts to combat the hundreds of thousands of violent crimes against women that are committed each year. Funding in support of the Violence Against Women Act plays a critical role in building a coordinated community response. In turn, this coordinated response has changed the civil and criminal justice systems for the better—encouraging victims to file complaints, improving prosecution of sexual assault and domestic violence cases, and increasing the issuance and enforcement of protection orders. The increased availability of legal services for victims seeking protection orders has made it easier to obtain such orders when they are needed, and has helped reduce domestic violence and improve their quality of life.

The Budget provides \$153 million in prisoner re-entry and jail diversion programs, including \$80 million for Second Chance Act programs and \$52 million for problem-solving grants supporting drug courts, mentally ill offender assistance, and other problem-solving approaches. With 2.3 million people in U.S. prisons and 1 in 32 American adults under some kind of correctional supervision, these programs aim to divert individuals from incarceration, reduce recidivism, and achieve public safety in a more sensible way.

The Budget provides \$20 million for the Byrne Criminal Justice Innovation Program, which supports the Administration's multi-agency Neighborhood Revitalization Initiative by directing resources where they are needed in higher-risk neighborhoods, integrating public safety, housing services, and other investments.



**Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS**  
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
<b>National Defense</b>						
<b>Discretionary:</b>						
Department of Homeland Security:						
Federal Emergency Management Agency:						
State and Local Programs .....	375	50	.....	67	205	31
<b>Energy</b>						
<b>Discretionary:</b>						
Department of Energy:						
Energy Programs:						
Energy Efficiency and Renewable Energy .....	231	128	178	4,561	3,390	1,010
<b>Mandatory:</b>						
Department of Energy:						
Energy Programs:						
Advanced Vehicles, Community Deployment Challenge .....	.....	.....	1,000	.....	.....	150
Tennessee Valley Authority:						
Tennessee Valley Authority Fund .....	567	640	576	567	640	.....
<b>Total, mandatory</b> .....	<b>567</b>	<b>640</b>	<b>1,576</b>	<b>567</b>	<b>640</b>	<b>150</b>
<b>Total, Energy</b> .....	<b>798</b>	<b>768</b>	<b>1,754</b>	<b>5,128</b>	<b>4,030</b>	<b>1,160</b>
<b>Natural Resources and Environment</b>						
<b>Discretionary:</b>						
Department of Agriculture:						
Farm Service Agency:						
Grassroots Source Water Protection Program .....	4	4	.....	4	4	.....
Natural Resources Conservation Service:						
Watershed Rehabilitation Program .....	4	7	.....	5	5	7
Watershed and Flood Prevention Operations .....	.....	116	.....	85	23	2
Forest Service:						
State and Private Forestry .....	287	254	251	248	323	309
Management of National Forest Lands for Subsistence Uses .....	3	3	.....	3	2	1
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Operations, Research, and Facilities .....	121	177	174	77	109	105
Pacific Coastal Salmon Recovery .....	80	65	50	77	79	76
Department of the Interior:						
Office of Surface Mining Reclamation and Enforcement:						
Regulation and Technology .....	71	67	57	52	48	46
Abandoned Mine Reclamation Fund .....	3	.....	.....	20	22	27
United States Geological Survey:						
Surveys, Investigations, and Research .....	6	6	.....	6	7	.....
United States Fish and Wildlife Service:						
State and Tribal Wildlife Grants .....	62	61	61	78	81	79
Cooperative Endangered Species Conservation Fund .....	60	48	60	89	90	90
Landowner Incentive Program .....	-3	.....	.....	10	12	12
Coastal Impact Assistance .....	.....	.....	-200	.....	.....	.....
National Park Service:						
Urban Park and Recreation Fund .....	-1	.....	.....	.....	.....	.....
National Recreation and Preservation .....	58	60	52	58	66	63
Land Acquisition and State Assistance .....	40	45	60	33	31	41
Historic Preservation Fund .....	54	56	56	79	85	81
Environmental Protection Agency:						
State and Tribal Assistance Grants .....	3,619	3,568	3,326	5,549	4,472	3,876
Hazardous Substance Superfund .....	19	19	19	273	220	211
Leaking Underground Storage Tank Trust Fund .....	97	97	97	157	117	106
<b>Total, discretionary</b> .....	<b>4,584</b>	<b>4,653</b>	<b>4,063</b>	<b>6,903</b>	<b>5,796</b>	<b>5,132</b>
<b>Mandatory:</b>						
Department of the Interior:						
Bureau of Land Management:						

**Table 18-1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued**  
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
Miscellaneous Permanent Payment Accounts .....	89	52	22	90	56	23
Bureau of Ocean Energy Management, Regulation and Enforcement:						
Coastal Impact Assistance <sup>1</sup> .....				70	9	
Office of Surface Mining Reclamation and Enforcement:						
Payments to States in Lieu of Coal Fee Receipts .....	85	85	85	118	65	82
Abandoned Mine Reclamation Fund .....	150	220	221	133	120	153
United States Fish and Wildlife Service:						
Federal Aid in Wildlife Restoration .....	412	399	413	396	406	424
Cooperative Endangered Species Conservation Fund .....	54	51	53	54	51	53
Coastal Impact Assistance <sup>1</sup> .....					62	92
Sport Fish Restoration .....	450	434	446	456	480	500
National Park Service:						
Land Acquisition and State Assistance .....				1	4	3
Departmental Offices:						
National Forests Fund, Payment to States .....	11	8	9	11	8	9
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes .....	23	19	19	23	19	19
States Share from Certain Gulf of Mexico Leases .....	1			1		
Corps of Engineers--Civil Works:						
South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund .....	4	4	5	3	7	5
<b>Total, mandatory</b> .....	<b>1,279</b>	<b>1,272</b>	<b>1,273</b>	<b>1,356</b>	<b>1,287</b>	<b>1,363</b>
<b>Total, Natural Resources and Environment</b> .....	<b>5,863</b>	<b>5,925</b>	<b>5,336</b>	<b>8,259</b>	<b>7,083</b>	<b>6,495</b>
<b>Agriculture</b>						
<b>Discretionary:</b>						
Department of Agriculture:						
Departmental Management:						
Departmental Administration .....	20	20		20	20	
National Institute of Food and Agriculture:						
Extension Activities .....	404	405	403	361	577	613
Research and Education Activities .....	323	324	319	294	431	337
Agricultural Marketing Service:						
Payments to States and Possessions .....	1	1	1	21	1	1
Farm Service Agency:						
State Mediation Grants .....	4	4	4	4	4	5
<b>Total, discretionary</b> .....	<b>752</b>	<b>754</b>	<b>727</b>	<b>700</b>	<b>1,033</b>	<b>956</b>
<b>Mandatory:</b>						
Department of Agriculture:						
Agricultural Marketing Service:						
Payments to States and Possessions .....	55	55		13	51	54
Farm Service Agency:						
Commodity Credit Corporation Fund .....	225			225		
<b>Total, mandatory</b> .....	<b>280</b>	<b>55</b>		<b>238</b>	<b>51</b>	<b>54</b>
<b>Total, Agriculture</b> .....	<b>1,032</b>	<b>809</b>	<b>727</b>	<b>938</b>	<b>1,084</b>	<b>1,010</b>
<b>Commerce and Housing Credit</b>						
<b>Mandatory:</b>						
Department of Commerce:						
National Oceanic and Atmospheric Administration:						
Promote and Develop Fishery Products and Research Pertaining to American Fisheries .....	1	1	6	14	4	11
National Telecommunications and Information Administration:						
State and Local Implementation Fund .....						-160
Incentive Auction Relocation Fund .....						-500
Public Safety Trust Fund .....			1,216			1,216
Department of the Treasury:						
Departmental Offices:						
State Small Business Credit Initiative .....				366	859	251
Financial Research Fund .....	21	123	158	4	120	154
Federal Communications Commission:						
Universal Service Fund .....	1,957	1,894	1,867	1,938	1,894	1,867

**Table 18-1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued**  
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
<b>Total, mandatory</b> .....	<b>1,979</b>	<b>2,018</b>	<b>3,247</b>	<b>2,322</b>	<b>2,877</b>	<b>2,839</b>
<b>Total, Commerce and Housing Credit</b> .....	<b>1,979</b>	<b>2,018</b>	<b>3,247</b>	<b>2,322</b>	<b>2,877</b>	<b>2,839</b>
<b>Transportation</b>						
<b>Discretionary:</b>						
Department of Transportation:						
Office of the Secretary:						
Supplemental Discretionary Grants for a National Surface Transportation System, Recovery Act .....				226	505	420
Federal Aviation Administration:						
Grants-in-aid for Airports, Recovery Act .....				164	15	
Grants-in-aid for Airports (Airport and Airway Trust Fund) .....				3,095	3,713	3,456
Federal Highway Administration:						
Emergency Relief Program .....		1,662		414	866	937
Highway Infrastructure Investment, Recovery Act .....				7,966	2,021	1,586
Highway Infrastructure Programs .....				135	133	151
Appalachian Development Highway System .....				22	32	35
Miscellaneous Appropriations .....				87	99	86
Miscellaneous Transportation Trust Funds .....				25	36	39
Federal Railroad Administration:						
Emergency Railroad Rehabilitation and Repair .....				3	8	
Intercity Passenger Rail Grant Program .....				10	20	20
Rail Line Relocation and Improvement Program .....	11			4	20	20
Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail Service .....				295	1,045	1,423
Federal Transit Administration:						
Transit Capital Assistance, Recovery Act .....				2,105	1,287	864
Fixed Guideway Infrastructure Investment, Recovery Act .....				207	132	88
Miscellaneous Expired Accounts .....			-1			-1
Job Access and Reverse Commute Grants .....			-15	8	7	-8
Interstate Transfer Grants-transit .....			-3			-3
Washington Metropolitan Area Transit Authority .....	150	150	134	110	150	250
Formula Grants .....			-73	220	309	116
Capital Investment Grants .....			-11			
Pipeline and Hazardous Materials Safety Administration:						
Pipeline Safety .....	31	34	63	32	33	33
Trust Fund Share of Pipeline Safety .....	5			3		
<b>Total, discretionary</b> .....	<b>197</b>	<b>1,846</b>	<b>94</b>	<b>15,131</b>	<b>10,431</b>	<b>9,512</b>
<b>Mandatory:</b>						
Department of Homeland Security:						
United States Coast Guard:						
Boat Safety .....	113	108	111	121	109	110
Department of Transportation:						
Immediate Transportation Investments .....		50,000			5,690	18,280
Office of the Secretary:						
National Infrastructure Investments <sup>2</sup> .....	502	480		10	90	312
National Infrastructure Investments (Transportation Trust Fund) <sup>2</sup> .....			480			
Federal Aviation Administration:						
Grants-in-aid for Airports (Airport and Airway Trust Fund) .....	3,385	3,370	2,277			
Federal Highway Administration:						
Federal-aid Highways <sup>2</sup> .....	38,564	39,427	41,902	35,754	38,598	41,115
Miscellaneous Appropriations .....	19	5		19	5	
Federal Motor Carrier Safety Administration:						
Motor Carrier Safety Grants <sup>2</sup> .....	307	306	330	253	313	334
National Highway Traffic Safety Administration:						
Highway Traffic Safety Grants <sup>2</sup> .....	532	525	618	558	628	634
Federal Railroad Administration:						
Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail Service <sup>2</sup> .....	-400			7	203	337
Network Development .....			1,000			136
Federal Transit Administration:						
Grants for Energy Efficiency and Greenhouse Gas Reductions <sup>2</sup> .....	50				8	25
Capital Investment Grants <sup>2</sup> .....	1,304	1,892		1,926	2,070	1,895

**Table 18-1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued**  
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
Discretionary Grants (Transportation Trust Fund, Mass Transit Account) .....				25	13	13
Transit Formula Grants <sup>2</sup> .....	9,572	8,361	4,759	7,182	8,537	8,457
Operations and Safety .....			36			32
Transit Expansion and Livable Communities Programs .....			2,448			245
Bus and Rail State of Good Repair .....			3,207			481
<b>Total, mandatory</b> .....	<b>53,948</b>	<b>104,474</b>	<b>57,168</b>	<b>45,855</b>	<b>56,264</b>	<b>72,406</b>
<b>Total, Transportation</b> .....	<b>54,145</b>	<b>106,320</b>	<b>57,262</b>	<b>60,986</b>	<b>66,695</b>	<b>81,918</b>
<b>Community and Regional Development</b>						
<b>Discretionary:</b>						
Department of Agriculture:						
Rural Utilities Service:						
Distance Learning, Telemedicine, and Broadband Program .....	25	35	42	299	606	709
Rural Water and Waste Disposal Program Account .....	495	456	436	755	781	933
Rural Housing Service:						
Rural Community Facilities Program Account .....	68	43	22	129	96	65
Rural Business Cooperative Service:						
Rural Business Program Account .....	176	253	76	230	258	86
Department of Commerce:						
Economic Development Administration:						
Economic Development Assistance Programs .....	246	420	182	423	494	444
Department of Homeland Security:						
Federal Emergency Management Agency:						
State and Local Programs .....	2,818	2,237	2,900	3,252	4,188	5,735
United States Fire Administration and Training .....	4	3	3	3	5	5
Disaster Relief .....	2,523	1,204	1,204	6,201	1,156	611
Department of Housing and Urban Development:						
Community Planning and Development:						
Community Development Fund .....	3,466	3,408	3,127	7,037	7,946	5,704
Community Development Loan Guarantees Program Account .....	6	6		3	9	5
Brownfields Redevelopment .....				10	9	11
Office of Lead Hazard Control and Healthy Homes:						
Lead Hazard Reduction .....	119	120	119	174	154	130
Department of the Interior:						
Bureau of Indian Affairs and Bureau of Indian Education:						
Operation of Indian Programs .....	159	159	159	158	159	157
Indian Guaranteed Loan Program Account .....	17	7	5	17	7	7
Appalachian Regional Commission .....	60	59	57	60	45	63
Delta Regional Authority .....	10	11	11	12	24	21
Denali Commission .....	1	17	10	49	55	25
<b>Total, discretionary</b> .....	<b>10,193</b>	<b>8,438</b>	<b>8,353</b>	<b>18,812</b>	<b>15,992</b>	<b>14,711</b>
<b>Mandatory:</b>						
Department of Homeland Security:						
Federal Emergency Management Agency:						
First Responder Stabilization Fund .....		998			599	399
Department of Housing and Urban Development:						
Community Planning and Development:						
Community Development Loan Guarantees Program Account .....		8			8	
Neighborhood Stabilization Program .....	1,000	15,000		1,123	1,063	5,548
<b>Total, mandatory</b> .....	<b>1,000</b>	<b>16,006</b>		<b>1,123</b>	<b>1,670</b>	<b>5,947</b>
<b>Total, Community and Regional Development</b> .....	<b>11,193</b>	<b>24,444</b>	<b>8,353</b>	<b>19,935</b>	<b>17,662</b>	<b>20,658</b>
<b>Education, Training, Employment, and Social Services</b>						
<b>Discretionary:</b>						
Department of Commerce:						
National Telecommunications and Information Administration:						
Public Telecommunications Facilities, Planning and Construction .....				22	8	6
Information Infrastructure Grants .....		-2				



**Table 18-1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued**  
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
Department of Education:						
Office of Elementary and Secondary Education:						
Indian Student Education .....	123	125	125	118	111	123
Impact Aid .....	1,268	1,286	1,219	1,331	1,493	1,260
Supporting Student Success .....	278	256	1,448	363	436	323
Accelerating Achievement and Ensuring Equity .....	15,487	15,677	14,718	19,486	20,143	15,364
Education Improvement Programs .....	4,471	4,416	2,816	5,309	4,949	4,426
State Fiscal Stabilization Fund, Recovery Act .....				12,419	5,412	
Office of Innovation and Improvement:						
Innovation and Instructional Teams .....	1,579	1,233	4,146	724	1,321	1,305
Office of English Language Acquisition:						
English Learner Education .....	690	685	685	743	715	685
Office of Special Education and Rehabilitative Services:						
Special Education .....	12,318	11,730	11,617	16,832	14,274	12,475
Rehabilitation Services and Disability Research .....	148	149	55	473	279	137
American Printing House for the Blind .....	25	25	25	23	32	26
Office of Vocational and Adult Education:						
Career, Technical and Adult Education .....	1,721	1,719	1,716	1,946	1,859	1,679
Office of Postsecondary Education:						
Race to the Top: College Affordability and Completion .....			1,000			50
Higher Education .....	302	301	301	438	502	361
Office of Federal Student Aid:						
Student Financial Assistance .....				47	6	17
Institute of Education Sciences .....	42	38	53	82	234	74
Hurricane Education Recovery .....				28	24	
Department of Health and Human Services:						
Administration for Children and Families:						
Supporting Healthy Families and Adolescent Development .....	63	62	62	63	62	63
Children and Families Services Programs .....	9,148	9,537	9,318	10,141	9,677	9,463
Administration on Aging:						
Aging Services Programs .....	1,496	1,470	1,926	1,513	1,484	1,756
Department of the Interior:						
Bureau of Indian Affairs and Bureau of Indian Education:						
Operation of Indian Programs .....	111	111	111	108	106	103
Department of Labor:						
Employment and Training Administration:						
Training and Employment Services .....	2,879	2,874	2,924	3,666	3,046	2,919
Community Service Employment for Older Americans .....	325			388	299	11
State Unemployment Insurance and Employment Service Operations .....	87	87	87	84	64	78
States Paid Leave Fund .....			5			1
Unemployment Trust Fund .....	966	955	995	1,266	951	925
Corporation for National and Community Service:						
Operating Expenses .....	485	496	496	232	363	266
Corporation for Public Broadcasting .....	435	444	445	435	444	445
District of Columbia:						
District of Columbia General and Special Payments:						
Federal Payment for Resident Tuition Support .....	35	30	35	35	30	35
Federal Payment for School Improvement .....	78	60	60	78	60	60
National Endowment for the Arts:						
National Endowment for the Arts: Grants and Administration .....	50	46	49	58	53	49
Institute of Museum and Library Services:						
Office of Museum and Library Services: Grants and Administration .....	217	216	216	257	260	260
<b>Total, discretionary .....</b>	<b>54,827</b>	<b>54,026</b>	<b>56,653</b>	<b>78,708</b>	<b>68,697</b>	<b>54,745</b>
<b>Mandatory:</b>						
Department of Education:						
Office of Elementary and Secondary Education:						
Education Jobs Fund .....				5,056	3,712	
Office of Special Education and Rehabilitative Services:						
Rehabilitation Services and Disability Research .....	3,085	3,122	3,231	2,795	3,512	3,292
Departmental Management:						
American Jobs Act .....		61,333	1,533		30,517	19,577

**Table 18-1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued**  
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
Department of Health and Human Services:						
Administration for Children and Families:						
Supporting Healthy Families and Adolescent Development .....	496	476	477	408	561	470
Social Services Block Grant .....	1,785	1,785	1,785	1,787	1,908	1,792
Department of Labor:						
Employment and Training Administration:						
American Jobs Act .....		17,834	1,333		5,062	12,147
TAA Community College and Career Training Grant Fund .....	500	500	500		193	632
Federal Unemployment Benefits and Allowances .....	409	575	575	393	607	793
<b>Total, mandatory .....</b>	<b>6,275</b>	<b>85,625</b>	<b>9,434</b>	<b>10,439</b>	<b>46,072</b>	<b>38,703</b>
<b>Total, Education, Training, Employment, and Social Services .....</b>	<b>61,102</b>	<b>139,651</b>	<b>66,087</b>	<b>89,147</b>	<b>114,769</b>	<b>93,448</b>
<b>Health</b>						
<b>Discretionary:</b>						
Department of Agriculture:						
Food Safety and Inspection Service:						
Salaries and Expenses .....	50	51	51	47	51	51
Department of Health and Human Services:						
Health Resources and Services Administration:						
Health Resources and Services .....	2,171	2,847	2,847	2,840	2,648	2,463
Centers for Disease Control and Prevention:						
CDC-Wide Activities and Program Support .....	2,358	2,309	2,309	2,335	2,153	2,130
Substance Abuse and Mental Health Services Administration:						
Substance Abuse and Mental Health Services Administration .....	2,828	2,823	2,723	2,964	2,941	2,965
Departmental Management:						
Public Health and Social Services Emergency Fund .....	575	380	255	277	395	374
Prevention and Wellness Fund, Recovery Act .....				22	18	
General Departmental Management .....		25	25		5	10
Department of Labor:						
Occupational Safety and Health Administration:						
Salaries and Expenses .....	115	115	115	115	115	115
Mine Safety and Health Administration:						
Salaries and Expenses .....	9	9	5	9	9	5
<b>Total, discretionary .....</b>	<b>8,106</b>	<b>8,559</b>	<b>8,330</b>	<b>8,609</b>	<b>8,335</b>	<b>8,113</b>
<b>Mandatory:</b>						
Department of Health and Human Services:						
Health Resources and Services Administration:						
Maternal, Infant, and Early Childhood Home Visiting Programs .....	250	350	400	36	86	359
Centers for Medicare and Medicaid Services:						
Rate Review Grants .....				12	80	80
Affordable Insurance Exchange Grants .....	478	1,140	868	24	906	1,087
Grants to States for Medicaid .....	258,365	270,868	269,525	274,964	255,263	282,819
Children's Health Insurance Fund .....	10,004	8,659	10,745	8,629	9,778	10,027
State Grants and Demonstrations .....	808	528	530	562	604	474
Child Enrollment Contingency Fund .....	8	7	13	4	125	200
Departmental Management:						
Pregnancy Assistance Fund .....	25	25	25	7	22	25
<b>Total, mandatory .....</b>	<b>269,938</b>	<b>281,577</b>	<b>282,106</b>	<b>284,238</b>	<b>266,864</b>	<b>295,071</b>
<b>Total, Health .....</b>	<b>278,044</b>	<b>290,136</b>	<b>290,436</b>	<b>292,847</b>	<b>275,199</b>	<b>303,184</b>
<b>Income Security</b>						
<b>Discretionary:</b>						
Department of Agriculture:						
Food and Nutrition Service:						
Commodity Assistance Program .....	246	244	254	286	276	254
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) .....	6,172	7,018	7,041	6,787	7,072	7,427
Department of Health and Human Services:						
Administration for Children and Families:						
Low Income Home Energy Assistance .....	4,701	3,472	3,020	4,419	3,726	3,338

**Table 18-1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued**  
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
Refugee and Entrant Assistance .....	504	504	625	632	633	722
Payments to States for the Child Care and Development Block Grant ..	2,214	2,269	2,594	2,975	2,290	2,452
Department of Homeland Security:						
Federal Emergency Management Agency:						
Emergency Food and Shelter .....	120	120	100	48	201	100
Department of Housing and Urban Development:						
Public and Indian Housing Programs:						
Public Housing Operating Fund .....	4,602	3,962	4,399	4,620	4,165	4,276
Revitalization of Severely Distressed Public Housing (HOPE VI) .....	99	.....	.....	177	170	150
Native Hawaiian Housing Block Grant .....	13	13	13	6	10	12
Tenant Based Rental Assistance .....	18,365	18,264	19,123	18,570	18,174	19,092
Project-based Rental Assistance .....	315	289	260	315	289	260
Public Housing Capital Fund .....	2,040	1,875	2,014	4,029	2,805	2,371
Native American Housing Block Grant .....	649	650	647	852	708	653
Choice Neighborhoods .....	.....	120	149	.....	.....	8
Family Self-Sufficiency .....	.....	.....	60	.....	.....	.....
Community Planning and Development:						
Homeless Assistance Grants .....	718	703	821	866	824	707
Home Investment Partnership Program .....	1,591	1,000	995	2,853	1,931	1,611
Housing Opportunities for Persons with AIDS .....	331	332	328	336	316	331
Rural Housing and Economic Development .....	.....	.....	.....	14	19	18
Permanent Supportive Housing .....	.....	.....	.....	13	13	11
Department of Labor:						
Employment and Training Administration:						
Unemployment Trust Fund .....	3,250	3,421	3,421	3,447	2,128	1,591
<b>Total, discretionary .....</b>	<b>45,930</b>	<b>44,256</b>	<b>45,864</b>	<b>51,245</b>	<b>45,750</b>	<b>45,384</b>
<b>Mandatory:</b>						
Department of Agriculture:						
Agricultural Marketing Service:						
Funds for Strengthening Markets, Income, and Supply (section 32) .....	952	880	1,044	947	903	1,044
Food and Nutrition Service:						
Supplemental Nutrition Assistance Program .....	6,721	6,888	7,061	5,973	6,832	7,034
Commodity Assistance Program .....	21	21	21	21	22	21
Child Nutrition Programs .....	17,306	18,136	19,768	17,112	19,436	19,768
Department of Health and Human Services:						
Administration for Children and Families:						
Payments to States for Child Support Services and Family Support Programs .....	4,159	4,048	3,867	4,182	3,869	3,873
Contingency Fund .....	334	612	293	1,956	1,317	393
Payments to States for Foster Care and Adoption Assistance .....	6,990	7,006	7,165	6,859	6,795	7,170
Child Care Entitlement to States .....	2,917	2,917	3,417	3,100	2,868	3,286
Temporary Assistance for Needy Families .....	16,950	16,739	17,058	17,116	16,538	17,306
Department of Housing and Urban Development:						
Public and Indian Housing Programs:						
Public Housing Capital Fund .....	.....	.....	.....	147	.....	.....
Community Planning and Development:						
Housing Trust Fund .....	.....	.....	1,000	.....	.....	10
Department of Labor:						
Employment and Training Administration:						
Unemployment Trust Fund .....	1,916	1,186	766	1,915	1,186	766
Department of the Treasury:						
Departmental Offices:						
Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credit Allocations .....	136	.....	.....	3,052	635	.....
<b>Total, mandatory .....</b>	<b>58,402</b>	<b>58,433</b>	<b>61,460</b>	<b>62,380</b>	<b>60,401</b>	<b>60,671</b>
<b>Total, Income Security .....</b>	<b>104,332</b>	<b>102,689</b>	<b>107,324</b>	<b>113,625</b>	<b>106,151</b>	<b>106,055</b>
<b>Social Security</b>						
<b>Mandatory:</b>						
Social Security Administration:						
Federal Disability Insurance Trust Fund .....	22	30	28	27	30	28

**Table 18-1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued**  
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
<b>Veterans Benefits and Services</b>						
<b>Discretionary:</b>						
Department of Veterans Affairs:						
Veterans Health Administration:						
Medical Services .....	822	733	765	822	733	765
Departmental Administration:						
Grants for Construction of State Extended Care Facilities .....	85	85	85	124	261	74
Grants for Construction of Veterans Cemeteries .....	46	46	46	50	33	33
<b>Total, discretionary .....</b>	<b>953</b>	<b>864</b>	<b>896</b>	<b>996</b>	<b>1,027</b>	<b>872</b>
<b>Total, Veterans Benefits and Services .....</b>	<b>953</b>	<b>864</b>	<b>896</b>	<b>996</b>	<b>1,027</b>	<b>872</b>
<b>Administration of Justice</b>						
<b>Discretionary:</b>						
Department of Housing and Urban Development:						
Fair Housing and Equal Opportunity:						
Fair Housing Activities .....	71	72	68	50	71	73
Department of Justice:						
Legal Activities and U.S. Marshals:						
Assets Forfeiture Fund .....	21	21	21	17	18	21
Office of Justice Programs:						
Research, Evaluation, and Statistics .....	144	58	78	166	174	134
State and Local Law Enforcement Assistance .....	1,219	1,094	945	1,751	1,727	1,589
Juvenile Justice Programs .....	241	211	202	293	334	341
Community Oriented Policing Services .....	304	162	278	623	800	518
Violence against Women Prevention and Prosecution Programs .....	404	390	392	449	457	533
Equal Employment Opportunity Commission:						
Salaries and Expenses .....	30	30	30	29	30	30
Federal Drug Control Programs:						
High-intensity Drug Trafficking Areas Program .....	217	239	200	220	194	238
State Justice Institute:						
State Justice Institute: Salaries and Expenses .....	5	5	5	4	6	6
<b>Total, discretionary .....</b>	<b>2,656</b>	<b>2,282</b>	<b>2,219</b>	<b>3,602</b>	<b>3,811</b>	<b>3,483</b>
<b>Mandatory:</b>						
Department of Justice:						
Legal Activities and U.S. Marshals:						
Assets Forfeiture Fund .....	579	574	573	531	520	566
Office of Justice Programs:						
Community Oriented Policing Stabilization Fund .....	.....	3,992	.....	.....	2,395	1,597
Crime Victims Fund .....	605	655	655	667	761	1,095
Department of the Treasury:						
Departmental Offices:						
Treasury Forfeiture Fund .....	207	36	216	76	262	200
<b>Total, mandatory .....</b>	<b>1,391</b>	<b>5,257</b>	<b>1,444</b>	<b>1,274</b>	<b>3,938</b>	<b>3,458</b>
<b>Total, Administration of Justice .....</b>	<b>4,047</b>	<b>7,539</b>	<b>3,663</b>	<b>4,876</b>	<b>7,749</b>	<b>6,941</b>
<b>General Government</b>						
<b>Discretionary:</b>						
Department of the Interior:						
United States Fish and Wildlife Service:						
National Wildlife Refuge Fund .....	15	14	.....	14	14	.....
Insular Affairs:						
Assistance to Territories .....	57	60	57	57	65	70
Trust Territory of the Pacific Islands .....	.....	.....	.....	1	1	1
District of Columbia:						
District of Columbia Courts:						
Federal Payment to the District of Columbia Courts .....	243	243	220	261	235	245
Defender Services in District of Columbia Courts .....	55	45	50	49	59	60



**Table 18–1. FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—BUDGET AUTHORITY AND OUTLAYS—Continued**  
(In millions of dollars)

Function, Category, Agency and Program	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
District of Columbia General and Special Payments:						
Federal Support for Economic Development and Management Reforms in the District .....	24	23	34	24	23	34
Election Assistance Commission:						
Election Reform Programs .....				95	24	5
<b>Total, discretionary .....</b>	<b>394</b>	<b>385</b>	<b>361</b>	<b>501</b>	<b>421</b>	<b>415</b>
<b>Mandatory:</b>						
Department of Agriculture:						
Forest Service:						
Forest Service Permanent Appropriations .....	454	359	85	437	371	126
Department of Energy:						
Energy Programs:						
Payments to States under Federal Power Act .....	6	3	3	4	3	3
Department of Homeland Security:						
Customs and Border Protection:						
Refunds, Transfers, and Expenses of Operation, Puerto Rico .....	101	95	96	88	132	98
Department of the Interior:						
Office of Surface Mining Reclamation and Enforcement:						
Payments to States in Lieu of Coal Fee Receipts .....	160	180	.....	.....	237	120
United States Fish and Wildlife Service:						
National Wildlife Refuge Fund .....	7	8	8	5	8	9
Departmental Offices:						
Mineral Leasing and Associated Payments .....	1,921	2,075	2,144	1,921	2,075	2,144
National Petroleum Reserve, Alaska .....	3	3	3	3	3	3
Geothermal Lease Revenues, Payment to Counties .....	4	4	.....	4	4	.....
Insular Affairs:						
Assistance to Territories .....	28	28	28	18	26	37
Payments to the United States Territories, Fiscal Assistance .....	208	248	248	208	248	248
Department-Wide Programs:						
Payments in Lieu of Taxes .....	376	387	398	375	387	398
Department of the Treasury:						
Alcohol and Tobacco Tax and Trade Bureau:						
Internal Revenue Collections for Puerto Rico .....	452	487	466	452	487	466
Internal Revenue Service:						
Build America Bond Payments, Recovery Act .....	3,597	3,456	3,958	3,597	3,456	3,958
Corps of Engineers--Civil Works:						
Permanent Appropriations .....	4	.....	.....	.....	.....	.....
<b>Total, mandatory .....</b>	<b>7,321</b>	<b>7,333</b>	<b>7,437</b>	<b>7,112</b>	<b>7,437</b>	<b>7,610</b>
<b>Total, General Government .....</b>	<b>7,715</b>	<b>7,718</b>	<b>7,798</b>	<b>7,613</b>	<b>7,858</b>	<b>8,025</b>
<b>Total, Grants .....</b>	<b>531,600</b>	<b>688,961</b>	<b>552,911</b>	<b>606,766</b>	<b>612,419</b>	<b>632,664</b>
Discretionary .....	129,198	126,241	127,738	189,835	164,888	144,364
Mandatory .....	402,402	562,720	425,173	416,931	447,531	488,300

<sup>1</sup> Management of the Coastal Impact Assistance program was transferred in 2012 from the Bureau of Ocean Energy Management, Regulation and Enforcement to the U.S. Fish and Wildlife Service.

<sup>2</sup> These programs are included in the surface transportation reauthorization proposal. As part of that proposal, the Administration proposes to reclassify all surface transportation outlays as mandatory, consistent with the recommendations of the President's National Commission on Fiscal Responsibility and Reform, and to also move a number of current General Fund programs into the Transportation Trust Fund. For comparability purposes, the Budget reclassifies 2011 actual and 2012 estimated budget authority and outlays as mandatory. The table reflects these changes.

## HISTORICAL PERSPECTIVES

The 19th century witnessed national expansion and a growth in Federal aid. With westward development and population growth, Congress recognized a great need for internal improvement projects. Many early grants came in the form of land and were used for canals, waterways, roads and railroads, although, at that time, grants were made to individuals, corporations, and territories since

most of the States of the trans-Mississippi west did not enter the Union until after the Civil War.

The rudiments of the present system of State grants-in-aid date back to the Civil War. After the War, key Supreme Court decisions expanded Federal powers under the Necessary and Proper Clause of the Constitution. Congress supported westward expansion with the Pacific

Railroad Act of 1862, which enabled the government to charter railroad corporations that constructed a trans-continental railroad. The Morrill Act, passed in 1862, established the land grant colleges and instituted certain federally required standards for States that received the grants, as is characteristic of present-day grant programs.

The Weeks Act of 1911 is an early example of the modern grant-in-aid program model because it contained several mechanisms that became common in future grants, including conditioning the receipt of Federal funds on approval of State plans, requiring matching State funds, and specifying the oversight role of Federal officials.<sup>9</sup> In 1914, Congress passed the Smith-Lever Act, another early grant-in-aid program which distributed millions of dollars in agricultural assistance to States for extension services by the land grant universities.

During the Great Depression, the reach of Federal grants-in-aid expanded to meet income security and other social welfare needs. The Federal Emergency Relief Act of 1933 was the first piece of legislation that specifically provided fiscal relief to States through grants.<sup>10</sup> However, Federal grants did not become a significant portion of Federal Government expenditures until after World War II. During the mid-part of the 20th century, the Eisenhower Administration made great investments in the National infrastructure system through the creation of the Interstate Highway program.

As shown in Table 18-2,<sup>11</sup> Federal grants for transportation were \$3.0 billion or 43 percent of all Federal grants in 1960 due to the initiation of aid-to-States to build the Interstate Highway System in the late 1950s. Transportation is now the fourth largest grant category and accounted for 10 percent of total grant outlays in 2011.

By 1970 there had been significant increases in grant funding for education, training, employment, and social services. This function was the largest grant category in 1970 and accounted for 27 percent of total grant outlays. In 2011, education, training, employment, and social services constituted 15 percent of total grant outlays. Also, in the early and mid-1970s, major new grants were created for natural resources and environment (construction of sewage treatment plants), community and regional development (community development block grants), and general government (general revenue sharing).

Since 1980, changes in the relative amounts among functions reflect steady growth of grants for health (primarily Medicaid) and income security. In 1980, grants for health programs constituted 17 percent of total grant spending. This amount grew to 32 percent in 1990 and 48 percent in 2010. In 2011, expenditures for health grants

were \$292.8 billion and 48 percent of total Federal grant spending.

Grants for income security programs accounted for 20 percent of grant funding in 1980, 27 percent in 1990 and 19 percent in 2010. Expenditures for income security grants were \$113.6 billion and 19 percent of Federal grant spending in 2011.

Section B of Table 18-2 distributes grants between mandatory and discretionary spending. Programs whose funding is provided directly in authorizing legislation are categorized as mandatory. Funding levels for most mandatory programs can only be changed by changing eligibility criteria or benefit formulas established in law and are usually not limited by the annual appropriations process.<sup>12</sup> Outlays for mandatory grant programs were \$416.9 billion in 2011. As shown in Table 18-1, the three largest mandatory grant programs in 2011 were Medicaid, with outlays of \$275.0 billion; Temporary Assistance for Needy Families, \$17.1 billion; and Child Nutrition Programs, which include the School Breakfast Program, the National School Lunch Program and others, \$17.1 billion.

Funding levels for discretionary grant programs are determined annually through appropriations acts. Outlays for discretionary grant programs were \$189.8 billion in 2011. As shown in Table 18-1, the three largest discretionary programs in 2011 were Federal-aid Highways, \$35.1 billion; Accelerating Achievement and Ensuring Equity (Education for the Disadvantaged), \$19.5 billion; and Tenant Based Rental Assistance, \$18.6 billion.

Section C of Table 18-2 divides grants among three major categories: payments for individuals, grants for physical capital, and other grants. Grant outlays for payments for individuals, which are primarily entitlement programs in which the Federal Government and the States share the costs, have grown significantly as a percent of total grants. They increased from about a third of the total in 1960 to slightly less than two-thirds in the mid-1990s, and have remained about that proportion since. These grants are distributed through State or local governments to provide cash or in-kind benefits that constitute income transfers to individuals or families. The major grant in this category is Medicaid. Temporary Assistance for Needy Families, child nutrition programs, and housing assistance are also large grants in this category. Grant spending in the payments for individuals category equaled \$387.8 billion in 2011 or 64 percent of total grant spending.

Grants for physical capital assist States and localities with construction and other physical capital activities. The major capital grants are for highways, but there are also grants for airports, mass transit, sewage treatment plant construction, and community development. Grants for physical capital were almost half of total grants in 1960 shortly after grants began for construction of the Interstate Highway System. The relative share of these outlays has declined, as payments for individuals have grown. In 2011, grants for physical capital were \$97 billion, 16 percent of total grants.

<sup>9</sup> Canada, Ben. February 19, 2003. Federal Grants to State and Local Governments: A Brief History. Congressional Research Service, The Library of Congress.

<sup>10</sup> Ibid.

<sup>11</sup> Table 18-2 displays trends in Federal grants to State and local governments since 1960. Section A shows Federal grants by function. Functions with a substantial amount of grant funding are broken out on separate lines. Grants for national defense, energy, social security, and veterans benefits and services functions are combined on the "Other" line.

<sup>12</sup> For more information on these categories, see Chapter 12, "Budget Concepts," in this volume.

All other grants are captured in the “other” category. These grants were 20.2 percent of total grants in 2011 and totaled \$122.4 billion.

Section D of Table 18-2 shows grants as a percent of Federal outlays, State and local expenditures, and gross domestic product. Grants have increased as a percent of total Federal outlays from 11 percent in 1990 to 18 percent in 2010 and were 17 percent in 2011. Grants as a percent of domestic programs were 22 percent in 2011.

Federal grants have increased as a percent of total State and local expenditures since 1990 when they were 19 percent. However, a comparison with State and local expenditures for 2011 cannot be made because final data are not yet available for that year.

Section E shows the relative contribution of physical capital grants in assisting States and localities with gross investment. Federal capital grants are estimated to be 30 percent of State and local gross investment in 2011.

**Table 18-2. TRENDS IN FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS**  
(Outlays in billions of dollars)

	Actual											Estimate	
	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2011	2012	2013
<b>A. Distribution of grants by function:</b>													
Natural resources and environment .....	0.1	0.2	0.4	2.4	5.4	4.1	3.7	4.0	4.6	5.9	8.3	7.1	6.5
Agriculture .....	0.2	0.5	0.6	0.4	0.6	2.4	1.3	0.8	0.7	0.9	0.9	1.1	1.0
Transportation .....	3.0	4.1	4.6	5.9	13.0	17.0	19.2	25.8	32.2	43.4	61.0	66.7	81.9
Community and regional development .....	0.1	0.6	1.8	2.8	6.5	5.2	5.0	7.2	8.7	20.2	19.9	17.7	20.7
Education, training, employment, and social services .....	0.5	1.1	6.4	12.1	21.9	17.1	21.8	30.9	36.7	57.2	89.1	114.8	93.4
Health .....	0.2	0.6	3.8	8.8	15.8	24.5	43.9	93.6	124.8	197.8	292.8	275.2	303.2
Income security .....	2.6	3.5	5.8	9.4	18.5	27.9	36.8	58.4	68.7	90.9	113.6	106.2	106.1
Administration of justice .....	.....	.....	0.0	0.7	0.5	0.1	0.6	1.2	5.3	4.8	4.9	7.7	6.9
General government .....	0.2	0.2	0.5	7.1	8.6	6.8	2.3	2.3	2.1	4.4	7.6	7.9	8.0
Other .....	0.0	0.1	0.1	0.2	0.7	0.8	0.8	0.8	2.1	2.6	8.5	8.2	4.9
<b>Total .....</b>	<b>7.0</b>	<b>10.9</b>	<b>24.1</b>	<b>49.8</b>	<b>91.4</b>	<b>105.9</b>	<b>135.3</b>	<b>225.0</b>	<b>285.9</b>	<b>428.0</b>	<b>606.8</b>	<b>612.4</b>	<b>632.7</b>
<b>B. Distribution of grants by BEA category:</b>													
Discretionary .....	N/A	2.9	10.2	21.0	53.3	55.5	63.3	94.0	116.7	181.7	189.8	164.9	144.4
Mandatory .....	N/A	8.0	13.9	28.8	38.1	50.4	72.0	131.0	169.2	246.3	416.9	447.5	488.3
<b>Total .....</b>	<b>7.0</b>	<b>10.9</b>	<b>24.1</b>	<b>49.8</b>	<b>91.4</b>	<b>105.9</b>	<b>135.3</b>	<b>225.0</b>	<b>285.9</b>	<b>428.0</b>	<b>606.8</b>	<b>612.4</b>	<b>632.7</b>
<b>C. Composition:</b>													
Current dollars:													
Payments for individuals <sup>1</sup> .....	2.5	3.7	8.7	16.8	32.6	50.1	77.3	144.4	182.6	273.9	387.8	368.6	399.3
Physical capital <sup>1</sup> .....	3.3	5.0	7.1	10.9	22.6	24.9	27.2	39.6	48.7	60.8	96.5	96.5	108.3
Other grants .....	1.2	2.2	8.3	22.2	36.2	30.9	30.9	41.0	54.6	93.3	122.4	147.4	125.0
<b>Total .....</b>	<b>7.0</b>	<b>10.9</b>	<b>24.1</b>	<b>49.8</b>	<b>91.4</b>	<b>105.9</b>	<b>135.3</b>	<b>225.0</b>	<b>285.9</b>	<b>428.0</b>	<b>606.8</b>	<b>612.4</b>	<b>632.7</b>
Percentage of total grants:													
Payments for individuals <sup>1</sup> .....	35.3%	34.1%	36.2%	33.6%	35.7%	47.3%	57.1%	64.2%	63.9%	64.0%	63.9%	60.2%	63.1%
Physical capital <sup>1</sup> .....	47.3%	45.7%	29.3%	21.9%	24.7%	23.5%	20.1%	17.6%	17.0%	14.2%	15.9%	15.7%	17.1%
Other grants .....	17.4%	20.2%	34.5%	44.5%	39.6%	29.2%	22.8%	18.2%	19.1%	21.8%	20.2%	24.1%	19.8%
<b>Total .....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Constant (FY 2005) dollars:													
Payments for individuals <sup>1</sup> .....	13.3	18.8	37.3	53.5	71.1	83.5	107.6	175.7	203.2	273.9	336.7	311.6	331.3
Physical capital <sup>1</sup> .....	19.6	27.9	31.4	30.0	44.9	39.5	37.6	50.0	56.5	60.8	76.2	73.9	80.5
Other grants .....	12.3	19.2	55.0	103.4	111.1	66.6	53.0	57.9	67.0	93.3	101.8	118.9	97.8
<b>Total .....</b>	<b>45.3</b>	<b>65.9</b>	<b>123.7</b>	<b>186.9</b>	<b>227.1</b>	<b>189.6</b>	<b>198.1</b>	<b>283.6</b>	<b>326.8</b>	<b>428.0</b>	<b>514.6</b>	<b>504.4</b>	<b>509.6</b>
<b>D. Total grants as a percent of:</b>													
Federal outlays:													
Total .....	7.6%	9.2%	12.3%	15.0%	15.5%	11.2%	10.8%	14.8%	16.0%	17.3%	16.8%	16.1%	16.6%
Domestic programs <sup>2</sup> .....	18.0%	18.3%	23.2%	21.7%	22.2%	18.2%	17.1%	21.6%	22.0%	23.5%	22.4%	21.1%	21.8%
State and local expenditures .....	14.8%	15.5%	20.1%	24.0%	27.4%	22.0%	18.9%	22.8%	22.2%	24.5%	27.5%	N/A	N/A
Gross domestic product .....	1.4%	1.6%	2.4%	3.2%	3.4%	2.6%	2.4%	3.1%	2.9%	3.4%	4.1%	3.9%	3.9%
<b>E. As a share of total State and local gross investments:</b>													
Federal capital grants .....	24.6%	25.5%	25.4%	26.0%	35.4%	30.2%	21.9%	26.0%	22.0%	22.0%	29.7%	29.2%	31.4%
State and local own-source financing .....	75.4%	74.5%	74.6%	74.0%	64.6%	69.8%	78.1%	74.0%	78.0%	78.0%	70.3%	70.8%	68.6%
<b>Total .....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

N/A: Not available at publishing.

\* 50 million or less.

<sup>1</sup> Grants that are both payments for individuals and capital investment are shown under capital investment.

<sup>2</sup> Excludes national defense, international affairs, net interest, and undistributed offsetting receipts.

## OTHER INFORMATION ON FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Additional information regarding aid to State and local governments can be found elsewhere in this Budget. Major public physical capital investment programs providing Federal grants to State and local governments are identified in Chapter 21, “Federal Investment,” in this volume. Summary and detailed data for grants to State and local governments can be found in many sections of a separate volume of the Budget entitled Historical Tables. Section 12 of that document is devoted exclusively to grants to State and local governments. Additional information on grants can be found in Section 6, Composition of Federal Government Outlays; Section 9, Federal Government Outlays for Major Public Physical Capital, Research and Development, and Education and Training; Section 11, Federal Government Payments for Individuals; and Section 15, Total (Federal and State and Local) Government Finances.

In addition, a number of other sources provide State-by-State data, information on how to apply for Federal aid, or display information about audits but use a slightly different concept of grants.

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

Current and updated grant receipt information by State and local governments can be found on [USAspending.gov](http://USAspending.gov). This public website also contains contract and loan information and is updated twice per month. Additional cur-

rent and updated information about grants provided specifically by the Recovery Act can be found on [Recovery.gov](http://Recovery.gov).

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

- *Federal Aid to States*, a report on Federal grant spending by State for the most recently completed fiscal year.
- *The Consolidated Federal Funds Report* is an annual document that shows the distribution of Federal spending by State and county areas and by local governmental jurisdictions.
- The Federal Audit Clearinghouse maintains an online database ([harvester.census.gov/sac](http://harvester.census.gov/sac)) that provides access to summary information about audits conducted under OMB Circular A–133, “Audits to States, Local Governments, and Non-Profit Organizations.” Information is available for each audited entity, including the amount of Federal money expended by program and whether there were audit findings.

The Bureau of Economic Analysis, also in the Department of Commerce, publishes the monthly *Survey of Current Business*, which provides data on the national income and product accounts (NIPA), a broad statistical concept encompassing the entire economy. These accounts include data on Federal grants to State and local governments. Data using the NIPA concepts appear in this volume in Chapter 29, “National Income and Product Accounts.”

## APPENDIX: SELECTED GRANT DATA BY STATE

This Appendix displays State-by-State spending for select grant programs to State and local governments with summary information in the first two tables. The programs selected here cover almost 80 percent of total grant spending.

The first summary table, “Summary of Programs by Agency, Bureau, and Program” shows obligations for each program by agency and bureau. The second summary table, “Summary of Grant Programs by State,” shows total obligations for each State across all programs.

The individual program tables display obligations for each program on a State-by-State basis, consistent with the estimates in this Budget. Each table reports the following information:

- The Federal agency that administers the program.
- The program title and number as contained in the *Catalog of Federal Domestic Assistance*.

- The budget account number from which the program is funded.
- Actual 2011 obligations for States, Federal territories, or Indian Tribes in thousands of dollars. Undistributed obligations are generally project funds that are not distributed by formula, or programs for which State-by-State data are not available.
- Estimates of 2012 obligations by State from previous budget authority and under new authority.
- Estimates of 2013 obligations by State, which are based on the 2013 Budget request, unless otherwise noted.
- The percentage share of 2013 estimated program funds distributed to each State.



**Table 18–3. SUMMARY OF PROGRAMS BY AGENCY, BUREAU, AND PROGRAM**  
(Obligations in millions of dollars)

Agency, Bureau, and Program	FY 2011 (actual)	Estimated FY 2012 obligations from:			FY 2013 (estimated)
		Previous authority	New authority	Total	
<b>Department of Agriculture, Food and Nutrition Service:</b>					
School Breakfast Program (10.553) .....	3,076	.....	3,321	3,321	3,503
National School Lunch Program (10.555) .....	10,321	629	10,088	10,717	11,405
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557) .....	7,123	144	6,947	7,091	7,144
Child and Adult Care Food Program (10.558) .....	2,732	.....	2,758	2,758	2,917
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Food Stamps) (10.561) .....	3,132	.....	3,742	3,742	3,867
<b>Department of Education, Office of Elementary and Secondary Education:</b>					
Title I College-And-Career-Ready Students (Formerly Title I Grants to Local Educational Agencies) (84.010) .....	14,443	.....	14,516	14,516	14,516
Improving Teacher Quality State Grants (84.367) .....	2,465	.....	2,467	2,467	.....
Effective Teachers and Leaders State Grants .....	.....	.....	.....	.....	2,467
<b>Department of Education, Office of Special Education and Rehabilitative Services:</b>					
Vocational Rehabilitation Grants (84.126) .....	3,085	.....	3,122	3,122	3,167
Special Education-Grants to States (84.027) .....	11,466	.....	11,578	11,578	11,578
<b>Department of Health and Human Services, Centers for Medicare and Medicaid Services:</b>					
Children's Health Insurance Program (93.767) .....	13,459	.....	14,982	14,982	17,406
Grants to States for Medicaid (93.778) .....	295,836	.....	266,622	266,622	284,874
<b>Department of Health and Human Services, Administration for Children and Families:</b>					
Temporary Assistance for Needy Families (TANF)-Family Assistance Grants (93.558) .....	16,935	.....	16,739	16,739	16,739
Child Support Enforcement-Federal Share of State and Local Administrative Costs and Incentives (93.563) .....	4,554	.....	4,225	4,225	4,041
Low Income Home Energy Assistance Program (93.568) .....	4,501	.....	3,472	3,472	2,820
Child Care and Development Block Grant (93.575) .....	2,222	.....	2,278	2,278	2,603
Child Care and Development Fund-Mandatory (93.596A) .....	1,240	.....	1,240	1,240	1,252
Child Care and Development Fund-Matching (93.596B) .....	1,664	.....	1,677	1,677	2,165
Head Start (93.600) .....	7,559	.....	7,969	7,969	8,054
Foster Care-Title IV-E (93.658) .....	4,459	.....	4,110	4,110	4,146
Adoption Assistance (93.659) .....	2,362	.....	2,415	2,415	2,537
Social Services Block Grant (93.667) .....	1,700	.....	1,700	1,700	1,700
<b>Department of Health and Human Services, HIV/AIDS Bureau:</b>					
Ryan White HIV/AIDS Treatment Modernization Act-Part B HIV Care Grants (93.917) .....	1,253	.....	1,299	1,299	1,363
<b>Department of Housing and Urban Development, Public and Indian Housing Programs:</b>					
Public Housing Operating Fund (14.850) .....	4,600	.....	3,962	3,962	4,524
Section 8 Housing Choice Vouchers (14.871) .....	18,510	179	18,264	18,443	19,123
Public Housing Capital Fund (14.872) .....	2,115	68	1,875	1,943	2,070
<b>Department of Housing and Urban Development, Community Planning and Development:</b>					
Community Development Block Grant (14.218) .....	4,425	940	3,408	4,348	3,227
<b>Department of Labor, Employment and Training Administration:</b>					
Unemployment Insurance (17.225) .....	3,189	.....	3,189	3,189	3,028
<b>Department of Transportation, Federal Aviation Administration:</b>					
Airport Improvement Program (20.106) .....	3,448	.....	5,199	5,199	2,277
<b>Department of Transportation, Federal Highway Administration:</b>					
Highway Planning and Construction (20.205) .....	39,721	.....	39,883	39,883	42,189
<b>Department of Transportation, Federal Transit Administration:</b>					
Transit Formula Grants Programs (20.507) .....	9,047	3,968	5,256	9,224	9,624
<b>Environmental Protection Agency, Office of Water:</b>					
Capitalization Grants for Clean Water State Revolving Fund (66.458) .....	1,864	231	1,235	1,466	1,175
Capitalization Grants for Drinking Water State Revolving Fund (66.468) .....	1,103	311	607	918	850
<b>Federal Communications Commission:</b>					
Universal Service Fund E-Rate .....	1,885	.....	1,947	1,947	1,806
<b>Total .....</b>	<b>505,495</b>	<b>6,470</b>	<b>472,092</b>	<b>478,561</b>	<b>500,157</b>

**Table 18-4. SUMMARY OF PROGRAMS BY STATE**  
(Obligations in millions of dollars)

State or Territory	All programs FY 2011 (actual)	Programs distributed in all years			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Estimated FY 2012 obligations from:				
		Previous authority	New authority	Total		
Alabama	6,739	86	6,818	6,904	6,910	1.50
Alaska	2,253	11	2,141	2,152	1,893	0.41
Arizona	9,960	82	9,007	9,088	8,992	1.95
Arkansas	5,160	25	4,966	4,991	5,114	1.11
California	60,336	786	52,824	53,610	53,321	11.54
Colorado	5,111	101	4,847	4,947	4,822	1.04
Connecticut	5,813	207	5,307	5,514	5,651	1.22
Delaware	1,502	19	1,384	1,404	1,422	0.31
District of Columbia	2,871	92	2,501	2,593	2,551	0.55
Florida	20,878	353	19,786	20,139	21,139	4.57
Georgia	11,774	187	11,383	11,570	11,792	2.55
Hawaii	1,888	62	1,733	1,795	1,827	0.40
Idaho	2,023	14	2,085	2,099	2,170	0.47
Illinois	16,147	138	15,256	15,394	14,936	3.23
Indiana	8,626	45	8,666	8,712	8,760	1.90
Iowa	4,227	48	3,925	3,973	3,953	0.86
Kansas	3,363	25	3,142	3,167	3,165	0.68
Kentucky	7,506	36	7,079	7,115	7,025	1.52
Louisiana	8,548	205	8,188	8,393	8,068	1.75
Maine	2,735	15	2,379	2,394	2,418	0.52
Maryland	7,555	105	6,841	6,946	7,144	1.55
Massachusetts	12,469	319	11,203	11,522	11,444	2.48
Michigan	14,975	111	14,302	14,412	14,609	3.16
Minnesota	7,837	61	7,859	7,921	7,741	1.68
Mississippi	5,840	42	6,146	6,188	6,430	1.39
Missouri	9,219	105	9,195	9,300	9,216	1.99
Montana	1,659	12	1,646	1,658	1,552	0.34
Nebraska	2,233	21	2,154	2,175	2,162	0.47
Nevada	2,263	32	2,302	2,334	2,227	0.48
New Hampshire	1,553	11	1,359	1,370	1,369	0.30
New Jersey	12,125	154	11,363	11,518	11,630	2.52
New Mexico	4,291	34	4,411	4,445	4,830	1.05
New York	47,391	1,037	47,568	48,605	50,700	10.97
North Carolina	12,865	147	12,758	12,905	12,920	2.80
North Dakota	1,205	21	1,071	1,093	1,031	0.22
Ohio	18,471	114	18,590	18,704	18,710	4.05
Oklahoma	5,625	21	5,457	5,479	5,578	1.21
Oregon	5,486	31	5,344	5,375	5,403	1.17
Pennsylvania	21,028	154	19,822	19,977	20,128	4.36
Rhode Island	2,278	38	1,959	1,997	1,988	0.43
South Carolina	6,360	64	6,039	6,103	6,007	1.30
South Dakota	1,275	4	1,201	1,205	1,155	0.25
Tennessee	9,661	39	9,699	9,738	10,369	2.24
Texas	33,692	517	32,393	32,910	33,804	7.31
Utah	3,080	21	2,844	2,865	2,795	0.60
Vermont	1,487	13	1,394	1,407	1,359	0.29
Virginia	7,934	145	7,411	7,555	7,907	1.71
Washington	7,620	76	8,338	8,414	9,178	1.99
West Virginia	3,675	14	3,561	3,576	3,593	0.78
Wisconsin	7,909	110	7,265	7,375	7,423	1.61
Wyoming	917	2	815	818	805	0.17
American Samoa	86	0	81	81	76	0.02
Guam	178	10	166	176	165	0.04
Northern Mariana Islands	68	1	75	76	64	0.01
Puerto Rico	3,526	116	3,472	3,587	3,604	0.78
Freely Associated States	37	1	52	54	29	0.01
Virgin Islands	170	11	164	175	168	0.04
Indian Tribes	870	25	847	873	886	0.19
<b>Total, programs distributed by State in all years</b>	<b>472,374</b>	<b>6,281</b>	<b>450,586</b>	<b>456,868</b>	<b>462,129</b>	<b>100.00</b>
<b>MEMORANDUM:</b>						
Not distributed by State in all years <sup>1</sup>	33,121	188	21,506	21,694	38,028	N/A
Total, including undistributed	505,495	6,470	472,092	478,561	500,157	N/A

<sup>1</sup> The sum of program obligations not distributed by State in all years.

Department of Agriculture, Food and Nutrition Service

12-3539-0-1-605

**Table 18-5. SCHOOL BREAKFAST PROGRAM (10.553)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	54,405	.....	59,870	59,870	63,139	1.80
Alaska .....	7,639	.....	8,406	8,406	8,865	0.25
Arizona .....	66,341	.....	73,005	73,005	76,991	2.20
Arkansas .....	40,056	.....	44,080	44,080	46,486	1.33
California .....	362,503	.....	398,916	398,916	420,697	12.01
Colorado .....	29,423	.....	32,379	32,379	34,146	0.97
Connecticut .....	21,355	.....	23,500	23,500	24,783	0.71
Delaware .....	8,169	.....	8,990	8,990	9,480	0.27
District of Columbia .....	7,575	.....	8,336	8,336	8,791	0.25
Florida .....	172,202	.....	189,499	189,499	199,846	5.71
Georgia .....	146,347	.....	161,047	161,047	169,840	4.85
Hawaii .....	10,323	.....	11,360	11,360	11,980	0.34
Idaho .....	15,964	.....	17,568	17,568	18,527	0.53
Illinois .....	97,880	.....	107,712	107,712	113,593	3.24
Indiana .....	58,266	.....	64,119	64,119	67,619	1.93
Iowa .....	19,180	.....	21,107	21,107	22,259	0.64
Kansas .....	22,878	.....	25,176	25,176	26,551	0.76
Kentucky .....	58,450	.....	64,321	64,321	67,833	1.94
Louisiana .....	63,423	.....	69,794	69,794	73,604	2.10
Maine .....	9,416	.....	10,362	10,362	10,928	0.31
Maryland .....	38,783	.....	42,679	42,679	45,009	1.29
Massachusetts .....	36,819	.....	40,517	40,517	42,730	1.22
Michigan .....	82,783	.....	91,098	91,098	96,072	2.74
Minnesota .....	34,539	.....	38,008	38,008	40,084	1.14
Mississippi .....	55,283	.....	60,836	60,836	64,158	1.83
Missouri .....	56,985	.....	62,709	62,709	66,133	1.89
Montana .....	6,429	.....	7,075	7,075	7,461	0.21
Nebraska .....	13,009	.....	14,316	14,316	15,097	0.43
Nevada .....	17,327	.....	19,067	19,067	20,109	0.57
New Hampshire .....	4,697	.....	5,169	5,169	5,451	0.16
New Jersey .....	49,377	.....	54,337	54,337	57,304	1.64
New Mexico .....	33,218	.....	36,555	36,555	38,550	1.10
New York .....	157,033	.....	172,807	172,807	182,242	5.20
North Carolina .....	98,983	.....	108,926	108,926	114,873	3.28
North Dakota .....	3,959	.....	4,357	4,357	4,595	0.13
Ohio .....	90,619	.....	99,722	99,722	105,166	3.00
Oklahoma .....	51,494	.....	56,667	56,667	59,760	1.71
Oregon .....	31,473	.....	34,634	34,634	36,525	1.04
Pennsylvania .....	75,757	.....	83,367	83,367	87,918	2.51
Rhode Island .....	7,261	.....	7,990	7,990	8,427	0.24
South Carolina .....	65,585	.....	72,173	72,173	76,113	2.17
South Dakota .....	6,300	.....	6,933	6,933	7,311	0.21
Tennessee .....	71,241	.....	78,397	78,397	82,677	2.36
Texas .....	438,103	.....	482,110	482,110	508,433	14.52
Utah .....	17,252	.....	18,985	18,985	20,021	0.57
Vermont .....	4,719	.....	5,193	5,193	5,477	0.16
Virginia .....	56,853	.....	62,564	62,564	65,980	1.88
Washington .....	45,196	.....	49,736	49,736	52,451	1.50
West Virginia .....	20,321	.....	22,362	22,362	23,583	0.67
Wisconsin .....	37,689	.....	41,475	41,475	43,739	1.25
Wyoming .....	3,229	.....	3,553	3,553	3,747	0.11
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	2,162	.....	2,379	2,379	2,509	0.07
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	30,738	.....	33,826	33,826	35,672	1.02
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	1,113	.....	1,225	1,225	1,292	0.04
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	57,707	.....	.....	.....	.....	.....
DOD/AF/USMC/Navy .....	15	.....	17	17	17	*
<b>Total .....</b>	<b>3,075,846</b>	<b>.....</b>	<b>3,321,311</b>	<b>3,321,311</b>	<b>3,502,644</b>	<b><sup>1</sup> 100.00</b>

\* \$500 or less or 0.005 percent or less.

<sup>1</sup> Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service

12-3539-0-1-605

**Table 18-6. NATIONAL SCHOOL LUNCH PROGRAM (10.555)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	179,934	11,245	180,392	191,637	203,938	1.79
Alaska .....	28,937	1,808	29,011	30,819	32,797	0.29
Arizona .....	230,108	14,381	230,693	245,074	260,806	2.29
Arkansas .....	119,028	7,439	119,331	126,770	134,907	1.18
California .....	1,341,671	83,851	1,345,084	1,428,935	1,520,659	13.33
Colorado .....	115,851	7,240	116,146	123,386	131,306	1.15
Connecticut .....	78,987	4,936	79,188	84,124	89,524	0.78
Delaware .....	25,956	1,622	26,022	27,644	29,419	0.26
District of Columbia .....	18,743	1,171	18,791	19,962	21,243	0.19
Florida .....	602,954	37,683	604,488	642,171	683,392	5.99
Georgia .....	418,632	26,163	419,697	445,860	474,480	4.16
Hawaii .....	38,981	2,436	39,080	41,516	44,181	0.39
Idaho .....	48,127	3,008	48,249	51,257	54,547	0.48
Illinois .....	376,492	23,530	377,449	400,979	426,718	3.74
Indiana .....	217,476	13,592	218,029	231,621	246,489	2.16
Iowa .....	87,119	5,445	87,340	92,785	98,741	0.87
Kansas .....	88,233	5,514	88,458	93,972	100,004	0.88
Kentucky .....	160,093	10,005	160,501	170,506	181,450	1.59
Louisiana .....	189,440	11,839	189,922	201,761	214,713	1.88
Maine .....	30,790	1,924	30,869	32,793	34,898	0.31
Maryland .....	130,440	8,152	130,772	138,924	147,842	1.30
Massachusetts .....	140,189	8,761	140,546	149,307	158,891	1.39
Michigan .....	264,760	16,547	265,433	281,980	300,081	2.63
Minnesota .....	130,532	8,158	130,864	139,022	147,946	1.30
Mississippi .....	150,202	9,387	150,584	159,971	170,240	1.49
Missouri .....	178,236	11,139	178,690	189,829	202,014	1.77
Montana .....	23,875	1,492	23,936	25,428	27,060	0.24
Nebraska .....	57,519	3,595	57,665	61,260	65,192	0.57
Nevada .....	77,108	4,819	77,304	82,123	87,395	0.77
New Hampshire .....	22,070	1,379	22,126	23,505	25,014	0.22
New Jersey .....	205,828	12,864	206,351	219,215	233,287	2.05
New Mexico .....	81,895	5,118	82,104	87,222	92,820	0.81
New York .....	582,962	36,433	584,446	620,879	660,733	5.79
North Carolina .....	320,141	20,008	320,955	340,963	362,850	3.18
North Dakota .....	15,894	993	15,935	16,928	18,014	0.16
Ohio .....	311,062	19,440	311,854	331,294	352,560	3.09
Oklahoma .....	141,066	8,816	141,425	150,241	159,885	1.40
Oregon .....	97,307	6,081	97,555	103,636	110,288	0.97
Pennsylvania .....	292,515	18,281	293,260	311,541	331,538	2.91
Rhode Island .....	25,675	1,605	25,740	27,345	29,100	0.26
South Carolina .....	171,206	10,700	171,641	182,341	194,046	1.70
South Dakota .....	24,994	1,562	25,058	26,620	28,328	0.25
Tennessee .....	207,488	12,967	208,016	220,983	235,168	2.06
Texas .....	1,192,799	74,547	1,195,833	1,270,380	1,351,926	11.85
Utah .....	87,058	5,441	87,279	92,720	98,672	0.87
Vermont .....	13,141	821	13,175	13,996	14,894	0.13
Virginia .....	193,537	12,096	194,029	206,125	219,356	1.92
Washington .....	169,120	10,570	169,550	180,120	191,682	1.68
West Virginia .....	56,039	3,502	56,182	59,684	63,515	0.56
Wisconsin .....	149,247	9,328	149,626	158,954	169,158	1.48
Wyoming .....	13,157	822	13,191	14,013	14,912	0.13
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	6,152	384	6,168	6,552	6,973	0.06
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	118,608	7,413	118,909	126,322	134,431	1.18
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	5,217	326	5,230	5,556	5,913	0.05
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	258,086	.....	.....	.....	.....	.....
DOD/AF/USMC/Navy .....	8,167	510	8,188	8,698	9,257	0.08
<b>Total .....</b>	<b>10,320,844</b>	<b>628,889</b>	<b>10,088,360</b>	<b>10,717,249</b>	<b>11,405,193</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.



Department of Agriculture, Food and Nutrition Service

12-3510-0-1-605

Table 18-7. SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC) (10.557)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	120,798	2,436	117,860	120,296	121,200	1.70
Alaska .....	26,426	533	25,783	26,316	26,514	0.37
Arizona .....	151,094	3,047	147,419	150,466	151,597	2.12
Arkansas .....	74,733	1,507	72,916	74,423	74,982	1.05
California .....	1,251,415	25,240	1,220,973	1,246,213	1,255,587	17.57
Colorado .....	75,870	1,530	74,025	75,555	76,123	1.07
Connecticut .....	51,290	1,034	50,043	51,077	51,461	0.72
Delaware .....	17,714	357	17,283	17,640	17,773	0.25
District of Columbia .....	15,022	303	14,657	14,960	15,072	0.21
Florida .....	368,721	7,437	359,751	367,188	369,950	5.18
Georgia .....	293,225	5,914	286,092	292,006	294,203	4.12
Hawaii .....	34,725	700	33,880	34,580	34,841	0.49
Idaho .....	31,207	629	30,448	31,077	31,311	0.44
Illinois .....	242,514	4,891	236,614	241,505	243,322	3.41
Indiana .....	121,950	2,460	118,983	121,443	122,357	1.71
Iowa .....	50,329	1,015	49,105	50,120	50,497	0.71
Kansas .....	53,386	1,077	52,087	53,164	53,564	0.75
Kentucky .....	116,914	2,358	114,070	116,428	117,304	1.64
Louisiana .....	126,233	2,546	123,162	125,708	126,654	1.77
Maine .....	19,623	396	19,146	19,542	19,689	0.28
Maryland .....	112,679	2,273	109,937	112,210	113,054	1.58
Massachusetts .....	91,424	1,844	89,200	91,044	91,729	1.28
Michigan .....	194,280	3,918	189,554	193,472	194,927	2.73
Minnesota .....	104,578	2,109	102,034	104,143	104,927	1.47
Mississippi .....	92,307	1,862	90,061	91,923	92,614	1.30
Missouri .....	100,200	2,021	97,762	99,783	100,534	1.41
Montana .....	15,994	323	15,605	15,928	16,047	0.22
Nebraska .....	34,925	704	34,076	34,780	35,042	0.49
Nevada .....	52,255	1,054	50,984	52,038	52,429	0.73
New Hampshire .....	12,434	251	12,131	12,382	12,475	0.17
New Jersey .....	143,770	2,900	140,272	143,172	144,249	2.02
New Mexico .....	49,388	996	48,187	49,183	49,553	0.69
New York .....	464,662	9,372	453,358	462,730	466,211	6.53
North Carolina .....	205,589	4,146	200,588	204,734	206,274	2.89
North Dakota .....	13,479	272	13,151	13,423	13,524	0.19
Ohio .....	188,668	3,805	184,079	187,884	189,297	2.65
Oklahoma .....	97,010	1,957	94,650	96,607	97,334	1.36
Oregon .....	78,994	1,593	77,073	78,666	79,257	1.11
Pennsylvania .....	217,425	4,385	212,136	216,521	218,150	3.05
Rhode Island .....	20,944	422	20,435	20,857	21,014	0.29
South Carolina .....	101,197	2,041	98,735	100,776	101,534	1.42
South Dakota .....	19,001	383	18,539	18,922	19,064	0.27
Tennessee .....	126,150	2,544	123,082	125,626	126,571	1.77
Texas .....	589,360	11,887	575,023	586,910	591,325	8.28
Utah .....	51,351	1,036	50,101	51,137	51,522	0.72
Vermont .....	13,767	278	13,432	13,710	13,813	0.19
Virginia .....	104,549	2,109	102,005	104,114	104,897	1.47
Washington .....	155,043	3,127	151,272	154,399	155,560	2.18
West Virginia .....	39,712	801	38,746	39,547	39,845	0.56
Wisconsin .....	96,213	1,940	93,873	95,813	96,533	1.35
Wyoming .....	9,726	196	9,489	9,685	9,758	0.14
American Samoa .....	8,014	162	7,819	7,981	8,041	0.11
Guam .....	9,108	184	8,886	9,070	9,139	0.13
Northern Mariana Islands .....	5,846	118	5,703	5,821	5,865	0.08
Puerto Rico .....	249,533	5,033	243,462	248,495	250,365	3.50
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	7,953	160	7,760	7,920	7,979	0.11
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	2,742	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>7,123,459</b>	<b>143,616</b>	<b>6,947,497</b>	<b>7,091,113</b>	<b>7,144,453</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service

12-3539-0-1-605

Table 18-8. CHILD AND ADULT CARE FOOD PROGRAM (10.558)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	36,991	.....	39,060	39,060	41,305	1.42
Alaska .....	7,787	.....	8,223	8,223	8,695	0.30
Arizona .....	43,028	.....	45,435	45,435	48,046	1.65
Arkansas .....	41,182	.....	43,486	43,486	45,985	1.58
California .....	258,560	.....	273,024	273,024	288,714	9.90
Colorado .....	22,235	.....	23,479	23,479	24,828	0.85
Connecticut .....	14,155	.....	14,947	14,947	15,806	0.54
Delaware .....	13,393	.....	14,142	14,142	14,955	0.51
District of Columbia .....	8,206	.....	8,665	8,665	9,163	0.31
Florida .....	164,343	.....	173,536	173,536	183,509	6.29
Georgia .....	101,159	.....	106,818	106,818	112,957	3.87
Hawaii .....	5,786	.....	6,110	6,110	6,461	0.22
Idaho .....	6,100	.....	6,441	6,441	6,811	0.23
Illinois .....	123,818	.....	130,744	130,744	138,258	4.74
Indiana .....	43,850	.....	46,303	46,303	48,964	1.68
Iowa .....	26,735	.....	28,231	28,231	29,853	1.02
Kansas .....	32,394	.....	34,206	34,206	36,172	1.24
Kentucky .....	31,336	.....	33,089	33,089	34,991	1.20
Louisiana .....	68,398	.....	72,224	72,224	76,375	2.62
Maine .....	9,661	.....	10,201	10,201	10,788	0.37
Maryland .....	44,284	.....	46,761	46,761	49,449	1.70
Massachusetts .....	54,368	.....	57,409	57,409	60,709	2.08
Michigan .....	62,841	.....	66,356	66,356	70,170	2.41
Minnesota .....	61,624	.....	65,071	65,071	68,811	2.36
Mississippi .....	36,061	.....	38,078	38,078	40,267	1.38
Missouri .....	46,992	.....	49,621	49,621	52,472	1.80
Montana .....	10,297	.....	10,873	10,873	11,498	0.39
Nebraska .....	30,298	.....	31,993	31,993	33,831	1.16
Nevada .....	5,903	.....	6,233	6,233	6,591	0.23
New Hampshire .....	3,932	.....	4,152	4,152	4,391	0.15
New Jersey .....	62,432	.....	65,924	65,924	69,713	2.39
New Mexico .....	32,793	.....	34,627	34,627	36,617	1.26
New York .....	192,882	.....	203,672	203,672	215,377	7.38
North Carolina .....	79,429	.....	83,872	83,872	88,692	3.04
North Dakota .....	10,394	.....	10,975	10,975	11,606	0.40
Ohio .....	87,567	.....	92,465	92,465	97,779	3.35
Oklahoma .....	53,843	.....	56,855	56,855	60,122	2.06
Oregon .....	30,045	.....	31,726	31,726	33,549	1.15
Pennsylvania .....	87,292	.....	92,175	92,175	97,472	3.34
Rhode Island .....	6,833	.....	7,215	7,215	7,630	0.26
South Carolina .....	26,784	.....	28,282	28,282	29,908	1.03
South Dakota .....	8,725	.....	9,213	9,213	9,743	0.33
Tennessee .....	51,577	.....	54,462	54,462	57,592	1.97
Texas .....	268,509	.....	283,529	283,529	299,824	10.28
Utah .....	25,001	.....	26,400	26,400	27,917	0.96
Vermont .....	4,824	.....	5,094	5,094	5,387	0.18
Virginia .....	39,068	.....	41,253	41,253	43,624	1.50
Washington .....	42,584	.....	44,966	44,966	47,550	1.63
West Virginia .....	14,178	.....	14,971	14,971	15,832	0.54
Wisconsin .....	38,729	.....	40,895	40,895	43,246	1.48
Wyoming .....	5,393	.....	5,695	5,695	6,022	0.21
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	354	.....	374	374	395	0.01
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	26,247	.....	27,715	27,715	29,308	1.00
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	918	.....	969	969	1,025	0.04
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	120,001	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>2,732,119</b>	<b>.....</b>	<b>2,758,235</b>	<b>2,758,235</b>	<b>2,916,755</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Agriculture, Food and Nutrition Service

12-3505-0-1-605

**Table 18-9. STATE ADMINISTRATIVE MATCHING GRANTS FOR THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (FOOD STAMPS) (10.561)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	44,242	.....	48,931	48,931	50,564	1.31
Alaska .....	12,688	.....	14,032	14,032	14,501	0.38
Arizona .....	40,841	.....	45,169	45,169	46,676	1.21
Arkansas .....	31,881	.....	35,260	35,260	36,436	0.94
California .....	596,756	.....	660,004	660,004	682,025	17.64
Colorado .....	40,165	.....	44,422	44,422	45,904	1.19
Connecticut .....	29,525	.....	32,654	32,654	33,743	0.87
Delaware .....	12,459	.....	13,779	13,779	14,239	0.37
District of Columbia .....	10,994	.....	12,159	12,159	12,565	0.32
Florida .....	98,099	.....	108,496	108,496	112,116	2.90
Georgia .....	66,478	.....	73,524	73,524	75,977	1.96
Hawaii .....	13,272	.....	14,679	14,679	15,168	0.39
Idaho .....	9,406	.....	10,403	10,403	10,750	0.28
Illinois .....	124,325	.....	137,501	137,501	142,089	3.67
Indiana .....	40,166	.....	44,423	44,423	45,905	1.19
Iowa .....	20,346	.....	22,502	22,502	23,253	0.60
Kansas .....	21,316	.....	23,575	23,575	24,362	0.63
Kentucky .....	38,743	.....	42,849	42,849	44,279	1.15
Louisiana .....	54,730	.....	60,531	60,531	62,551	1.62
Maine .....	9,787	.....	10,825	10,825	11,186	0.29
Maryland .....	46,971	.....	51,949	51,949	53,683	1.39
Massachusetts .....	54,028	.....	59,754	59,754	61,747	1.60
Michigan .....	123,644	.....	136,748	136,748	141,311	3.65
Minnesota .....	60,442	.....	66,848	66,848	69,079	1.79
Mississippi .....	26,292	.....	29,079	29,079	30,049	0.78
Missouri .....	40,422	.....	44,706	44,706	46,198	1.19
Montana .....	10,907	.....	12,064	12,064	12,466	0.32
Nebraska .....	13,681	.....	15,131	15,131	15,635	0.40
Nevada .....	17,942	.....	19,844	19,844	20,506	0.53
New Hampshire .....	6,868	.....	7,596	7,596	7,849	0.20
New Jersey .....	117,126	.....	129,539	129,539	133,861	3.46
New Mexico .....	31,921	.....	35,304	35,304	36,482	0.94
New York .....	415,718	.....	459,777	459,777	475,118	12.29
North Carolina .....	91,868	.....	101,605	101,605	104,995	2.72
North Dakota .....	6,758	.....	7,475	7,475	7,724	0.20
Ohio .....	97,786	.....	108,150	108,150	111,759	2.89
Oklahoma .....	46,620	.....	51,561	51,561	53,281	1.38
Oregon .....	51,627	.....	57,099	57,099	59,004	1.53
Pennsylvania .....	177,004	.....	195,764	195,764	202,295	5.23
Rhode Island .....	8,541	.....	9,446	9,446	9,761	0.25
South Carolina .....	22,149	.....	24,496	24,496	25,314	0.65
South Dakota .....	8,295	.....	9,175	9,175	9,481	0.25
Tennessee .....	58,307	.....	64,486	64,486	66,638	1.72
Texas .....	277,734	.....	307,169	307,169	317,418	8.21
Utah .....	26,081	.....	28,845	28,845	29,808	0.77
Vermont .....	9,857	.....	10,902	10,902	11,266	0.29
Virginia .....	96,836	.....	107,099	107,099	110,673	2.86
Washington .....	53,425	.....	59,087	59,087	61,059	1.58
West Virginia .....	13,589	.....	15,029	15,029	15,531	0.40
Wisconsin .....	43,471	.....	48,078	48,078	49,682	1.28
Wyoming .....	4,511	.....	4,989	4,989	5,156	0.13
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	1,308	.....	1,447	1,447	1,495	0.04
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	.....	.....	.....	.....	.....	.....
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	5,462	.....	6,041	6,041	6,242	0.16
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	(251,046)	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>3,132,364</b>	<b>.....</b>	<b>3,742,000</b>	<b>3,742,000</b>	<b>3,866,855</b>	<b>1 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Education, Office of Elementary and Secondary Education

91-0900-0-1-501

**Table 18–10. TITLE I COLLEGE-AND-CAREER-READY STUDENTS (FORMERLY  
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES) (84.010)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	225,429	.....	232,965	232,965	236,172	1.63
Alaska .....	35,823	.....	37,197	37,197	37,197	0.26
Arizona .....	314,267	.....	315,167	315,167	307,811	2.12
Arkansas .....	156,380	.....	152,850	152,850	150,657	1.04
California .....	1,625,236	.....	1,653,304	1,653,304	1,664,848	11.48
Colorado .....	153,144	.....	148,648	148,648	147,852	1.02
Connecticut .....	106,879	.....	104,084	104,084	104,569	0.72
Delaware .....	42,346	.....	43,404	43,404	43,299	0.30
District of Columbia .....	48,882	.....	46,644	46,644	44,857	0.31
Florida .....	739,253	.....	748,069	748,069	765,375	5.28
Georgia .....	525,436	.....	523,988	523,988	526,431	3.63
Hawaii .....	47,475	.....	46,520	46,520	47,267	0.33
Idaho .....	54,017	.....	55,258	55,258	55,385	0.38
Illinois .....	642,067	.....	631,641	631,641	621,341	4.28
Indiana .....	256,165	.....	266,039	266,039	267,990	1.85
Iowa .....	76,602	.....	78,622	78,622	79,508	0.55
Kansas .....	110,578	.....	113,238	113,238	114,737	0.79
Kentucky .....	225,845	.....	219,705	219,705	219,450	1.51
Louisiana .....	298,717	.....	288,806	288,806	288,768	1.99
Maine .....	52,351	.....	51,850	51,850	51,562	0.36
Maryland .....	182,321	.....	189,713	189,713	194,416	1.34
Massachusetts .....	218,732	.....	210,246	210,246	209,269	1.44
Michigan .....	535,251	.....	539,207	539,207	536,763	3.70
Minnesota .....	158,515	.....	163,021	163,021	165,098	1.14
Mississippi .....	193,653	.....	189,477	189,477	186,852	1.29
Missouri .....	243,944	.....	235,003	235,003	231,696	1.60
Montana .....	44,525	.....	44,800	44,800	44,457	0.31
Nebraska .....	61,647	.....	68,206	68,206	69,338	0.48
Nevada .....	97,147	.....	106,904	106,904	109,862	0.76
New Hampshire .....	40,487	.....	39,315	39,315	39,315	0.27
New Jersey .....	299,489	.....	301,840	301,840	302,423	2.08
New Mexico .....	113,692	.....	121,112	121,112	122,567	0.84
New York .....	1,167,526	.....	1,130,599	1,130,599	1,104,714	7.61
North Carolina .....	390,206	.....	399,516	399,516	408,137	2.81
North Dakota .....	34,059	.....	35,583	35,583	35,583	0.25
Ohio .....	569,119	.....	583,054	583,054	582,020	4.01
Oklahoma .....	154,441	.....	161,032	161,032	161,909	1.12
Oregon .....	146,251	.....	151,595	151,595	153,326	1.06
Pennsylvania .....	545,519	.....	564,977	564,977	566,565	3.91
Rhode Island .....	49,476	.....	49,136	49,136	48,916	0.34
South Carolina .....	220,302	.....	219,300	219,300	219,743	1.51
South Dakota .....	43,659	.....	43,561	43,561	43,561	0.30
Tennessee .....	274,046	.....	279,518	279,518	281,999	1.94
Texas .....	1,347,007	.....	1,372,597	1,372,597	1,374,362	9.47
Utah .....	80,030	.....	92,777	92,777	94,787	0.65
Vermont .....	33,244	.....	34,479	34,479	34,457	0.24
Virginia .....	245,714	.....	236,575	236,575	236,542	1.63
Washington .....	210,582	.....	218,577	218,577	220,460	1.52
West Virginia .....	91,417	.....	88,182	88,182	88,519	0.61
Wisconsin .....	213,000	.....	224,840	224,840	229,018	1.58
Wyoming .....	32,516	.....	33,619	33,619	33,619	0.23
American Samoa .....	9,671	.....	9,522	9,522	9,522	0.07
Guam .....	11,559	.....	11,667	11,667	11,667	0.08
Northern Mariana Islands .....	3,708	.....	3,743	3,743	3,743	0.03
Puerto Rico .....	520,137	.....	480,987	480,987	461,962	3.18
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	12,995	.....	12,795	12,795	12,795	0.09
Indian Tribes .....	101,456	.....	102,399	102,399	102,399	0.71
Undistributed .....	8,992	.....	8,984	8,984	9,000	.....
School and School District Rewards .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>14,442,927</b>	<b>.....</b>	<b>14,516,457</b>	<b>14,516,457</b>	<b>14,516,457</b>	<b>1 100.00</b>

<sup>1</sup> Excludes undistributed obligations.



Department of Education, Office of Elementary and Secondary Education

91-1000-0-1-501

**Table 18–11. IMPROVING TEACHER QUALITY STATE GRANTS (84.367)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	38,692		38,662	38,662		
Alaska	11,547		11,494	11,494		
Arizona	38,806		38,309	38,309		
Arkansas	23,626		23,379	23,379		
California	270,613		270,259	270,259		
Colorado	27,312		27,104	27,104		
Connecticut	22,649		22,568	22,568		
Delaware	11,547		11,494	11,494		
District of Columbia	11,547		11,494	11,494		
Florida	110,092		109,842	109,842		
Georgia	64,591		64,187	64,187		
Hawaii	11,547		11,494	11,494		
Idaho	11,547		11,494	11,494		
Illinois	99,564		98,787	98,787		
Indiana	41,645		41,592	41,592		
Iowa	18,876		18,833	18,833		
Kansas	19,325		19,283	19,283		
Kentucky	38,091		37,813	37,813		
Louisiana	54,368		54,185	54,185		
Maine	11,547		11,494	11,494		
Maryland	34,885		34,870	34,870		
Massachusetts	43,919		43,692	43,692		
Michigan	96,239		95,661	95,661		
Minnesota	33,105		33,021	33,021		
Mississippi	35,969		35,699	35,699		
Missouri	42,143		41,658	41,658		
Montana	11,547		11,494	11,494		
Nebraska	11,824		11,771	11,771		
Nevada	12,337		12,428	12,428		
New Hampshire	11,547		11,494	11,494		
New Jersey	55,157		54,976	54,976		
New Mexico	19,112		19,145	19,145		
New York	196,621		195,579	195,579		
North Carolina	53,934		53,851	53,851		
North Dakota	11,547		11,494	11,494		
Ohio	91,211		90,843	90,843		
Oklahoma	27,981		27,947	27,947		
Oregon	23,622		23,564	23,564		
Pennsylvania	98,203		98,179	98,179		
Rhode Island	11,547		11,494	11,494		
South Carolina	30,682		30,482	30,482		
South Dakota	11,547		11,494	11,494		
Tennessee	41,768		41,688	41,688		
Texas	200,871		200,025	200,025		
Utah	15,993		16,113	16,113		
Vermont	11,547		11,494	11,494		
Virginia	43,398		43,058	43,058		
Washington	39,837		39,716	39,716		
West Virginia	20,528		20,419	20,419		
Wisconsin	39,871		39,896	39,896		
Wyoming	11,547		11,494	11,494		
American Samoa	2,843		2,845	2,845		
Guam	4,371		4,374	4,374		
Northern Mariana Islands	1,359		1,360	1,360		
Puerto Rico	75,807		74,193	74,193		
Freely Associated States						
Virgin Islands	3,690		3,692	3,692		
Indian Tribes	12,263		12,271	12,271		
Undistributed	36,973		49,331	49,331		
<b>Total</b>	<b>2,464,877</b>		<b>2,466,572</b>	<b>2,466,572</b>		

Note: No amounts are included for 2013 because this program is proposed for consolidation in the Effective Teachers and Leaders State Grants program under the Administration's reauthorization proposal of the Elementary and Secondary Education Act.

Department of Education, Office of Elementary and Secondary Education

91-0204-0-1-501

**Table 18-12. EFFECTIVE TEACHERS AND LEADERS STATE GRANTS**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama					28,895	1.59
Alaska					8,590	0.47
Arizona					28,631	1.58
Arkansas					17,473	0.96
California					201,987	11.14
Colorado					20,257	1.12
Connecticut					16,867	0.93
Delaware					8,590	0.47
District of Columbia					8,590	0.47
Florida					82,094	4.53
Georgia					47,972	2.65
Hawaii					8,590	0.47
Idaho					8,590	0.47
Illinois					73,832	4.07
Indiana					31,085	1.71
Iowa					14,076	0.78
Kansas					14,412	0.79
Kentucky					28,261	1.56
Louisiana					40,497	2.23
Maine					8,590	0.47
Maryland					26,061	1.44
Massachusetts					32,655	1.80
Michigan					71,495	3.94
Minnesota					24,679	1.36
Mississippi					26,681	1.47
Missouri					31,134	1.72
Montana					8,590	0.47
Nebraska					8,797	0.49
Nevada					9,288	0.51
New Hampshire					8,590	0.47
New Jersey					41,088	2.27
New Mexico					14,308	0.79
New York					146,173	8.06
North Carolina					40,247	2.22
North Dakota					8,590	0.47
Ohio					67,895	3.75
Oklahoma					20,887	1.15
Oregon					17,612	0.97
Pennsylvania					73,378	4.05
Rhode Island					8,590	0.47
South Carolina					22,782	1.26
South Dakota					8,590	0.47
Tennessee					31,157	1.72
Texas					149,495	8.25
Utah					12,043	0.66
Vermont					8,590	0.47
Virginia					32,181	1.78
Washington					29,683	1.64
West Virginia					15,261	0.84
Wisconsin					29,818	1.64
Wyoming					8,590	0.47
American Samoa					3,362	0.19
Guam					4,027	0.22
Northern Mariana Islands					1,476	0.08
Puerto Rico					55,450	3.06
Freely Associated States						
Virgin Islands					3,468	0.19
Indian Tribes					12,333	0.68
Undistributed					653,644	
<b>Total</b>					<b>2,466,567</b>	<sup>1</sup> <b>100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Education, Office of Special Education and Rehabilitative Services

1-0301-0-1-506

**Table 18-13. VOCATIONAL REHABILITATION GRANTS (84.126)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	59,102		61,609	61,609	61,934	1.96
Alaska	11,658		10,279	10,279	10,597	0.34
Arizona	64,737		62,823	62,823	63,697	2.02
Arkansas	45,996		37,896	37,896	38,278	1.21
California	289,166		294,858	294,858	298,855	9.47
Colorado	40,186		40,548	40,548	41,275	1.31
Connecticut	24,053		21,325	21,325	21,570	0.68
Delaware	10,457		10,279	10,279	10,597	0.34
District of Columbia	14,873		13,500	13,500	13,965	0.44
Florida	155,698		169,058	169,058	171,460	5.43
Georgia	64,749		103,507	103,507	104,813	3.32
Hawaii	12,900		11,755	11,755	12,087	0.38
Idaho	15,481		18,007	18,007	18,384	0.58
Illinois	114,847		111,622	111,622	112,261	3.56
Indiana	64,145		76,337	76,337	76,698	2.43
Iowa	26,236		33,200	33,200	33,479	1.06
Kansas	29,104		28,478	28,478	28,758	0.91
Kentucky	46,186		56,947	56,947	57,320	1.82
Louisiana	33,432		54,577	54,577	55,016	1.74
Maine	16,496		15,979	15,979	16,222	0.51
Maryland	47,117		41,298	41,298	41,868	1.33
Massachusetts	68,680		47,794	47,794	48,345	1.53
Michigan	98,699		112,918	112,918	113,016	3.58
Minnesota	47,462		48,149	48,149	48,639	1.54
Mississippi	44,457		43,016	43,016	43,289	1.37
Missouri	65,177		66,681	66,681	66,983	2.12
Montana	11,750		11,552	11,552	11,867	0.38
Nebraska	19,983		18,556	18,556	18,914	0.60
Nevada	18,617		22,207	22,207	22,517	0.71
New Hampshire	11,974		11,560	11,560	11,815	0.37
New Jersey	57,620		58,076	58,076	58,632	1.86
New Mexico	22,020		24,728	24,728	25,116	0.80
New York	169,121		146,984	146,984	148,275	4.70
North Carolina	103,490		106,174	106,174	107,470	3.41
North Dakota	10,157		10,279	10,279	10,597	0.34
Ohio	105,641		133,070	133,070	133,314	4.22
Oklahoma	43,405		43,148	43,148	43,581	1.38
Oregon	39,059		39,356	39,356	39,776	1.26
Pennsylvania	99,130		131,561	131,561	132,293	4.19
Rhode Island	15,953		10,494	10,494	10,737	0.34
South Carolina	49,972		57,214	57,214	57,891	1.83
South Dakota	10,157		10,279	10,279	10,597	0.34
Tennessee	72,682		74,531	74,531	75,171	2.38
Texas	234,145		241,602	241,602	246,389	7.81
Utah	37,874		30,874	30,874	31,491	1.00
Vermont	14,815		10,279	10,279	10,597	0.34
Virginia	73,422		66,791	66,791	67,745	2.15
Washington	53,689		54,274	54,274	55,189	1.75
West Virginia	47,956		26,768	26,768	26,990	0.86
Wisconsin	57,089		61,533	61,533	61,840	1.96
Wyoming	8,921		10,279	10,279	10,597	0.34
American Samoa	1,084		959	959	1,006	0.03
Guam	2,993		2,900	2,900	2,935	0.09
Northern Mariana Islands	821		862	862	909	0.03
Puerto Rico	75,015		72,425	72,425	72,150	2.29
Freely Associated States						
Virgin Islands	2,286		2,059	2,059	2,100	0.07
Indian Tribes	43,550		37,898	37,898	38,200	1.21
Undistributed	59,211				11,262	
<b>Total</b>	<b>3,084,696</b>		<b>3,121,712</b>	<b>3,121,712</b>	<b>3,167,369</b>	<b>100.00</b>

NOTE: FY 2013 estimates reflect the Administration proposal to consolidate smaller programs into the VR State Grant program. FY 2013 estimates are illustrative and subject to change.

<sup>1</sup> The undistributed amount includes \$10 million that would be set aside to support an interagency Workforce Innovation Fund and \$1.262 million to pay the continuation costs of the remaining four Migrant and Seasonal Farmworkers projects awarded under Section 304 of the Rehabilitation Act of 1973, USC Title 29 section 774.

<sup>2</sup> Excludes undistributed obligations.

Department of Education, Office of Special Education and Rehabilitative Services

91-0300-0-1-501

**Table 18-14. SPECIAL EDUCATION-GRANTS TO STATES (84.027)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	179,982		181,562	181,562	181,566	1.57
Alaska	36,064		36,472	36,472	36,472	0.32
Arizona	183,462		188,006	188,006	188,010	1.62
Arkansas	111,004		111,980	111,980	111,982	0.97
California	1,213,998		1,224,662	1,224,662	1,224,698	10.58
Colorado	152,892		154,234	154,234	154,240	1.33
Connecticut	131,612		132,768	132,768	132,772	1.15
Delaware	33,614		34,446	34,446	34,448	0.30
District of Columbia	16,902		17,320	17,320	17,320	0.15
Florida	625,658		631,152	631,152	631,170	5.45
Georgia	322,524		328,078	328,078	328,088	2.83
Hawaii	39,504		39,852	39,852	39,854	0.34
Idaho	54,740		55,222	55,222	55,222	0.48
Illinois	501,248		505,652	505,652	505,666	4.37
Indiana	255,334		257,576	257,576	257,584	2.22
Iowa	120,850		121,910	121,910	121,914	1.05
Kansas	105,764		106,692	106,692	106,696	0.92
Kentucky	156,514		157,888	157,888	157,892	1.36
Louisiana	187,318		188,962	188,962	188,968	1.63
Maine	54,166		54,642	54,642	54,642	0.47
Maryland	198,176		199,916	199,916	199,922	1.73
Massachusetts	280,998		283,466	283,466	283,474	2.45
Michigan	396,402		399,884	399,884	399,896	3.45
Minnesota	187,882		189,532	189,532	189,538	1.64
Mississippi	118,936		119,980	119,980	119,984	1.04
Missouri	224,856		226,830	226,830	226,836	1.96
Montana	36,814		37,222	37,222	37,222	0.32
Nebraska	73,914		74,564	74,564	74,566	0.64
Nevada	68,994		70,702	70,702	70,706	0.61
New Hampshire	46,976		47,390	47,390	47,390	0.41
New Jersey	357,804		360,946	360,946	360,956	3.12
New Mexico	90,214		91,006	91,006	91,008	0.79
New York	751,404		758,002	758,002	758,024	6.55
North Carolina	323,238		326,078	326,078	326,088	2.82
North Dakota	27,294		27,970	27,970	27,970	0.24
Ohio	433,154		436,958	436,958	436,972	3.77
Oklahoma	146,388		147,674	147,674	147,678	1.28
Oregon	127,640		128,760	128,760	128,764	1.11
Pennsylvania	422,716		426,428	426,428	426,440	3.68
Rhode Island	43,288		43,668	43,668	43,670	0.38
South Carolina	175,288		176,828	176,828	176,834	1.53
South Dakota	32,514		33,320	33,320	33,320	0.29
Tennessee	234,412		236,470	236,470	236,476	2.04
Texas	972,140		980,678	980,678	980,708	8.47
Utah	108,500		109,454	109,454	109,458	0.95
Vermont	26,316		26,968	26,968	26,970	0.23
Virginia	279,026		281,476	281,476	281,484	2.43
Washington	219,030		220,954	220,954	220,960	1.91
West Virginia	75,178		75,838	75,838	75,840	0.66
Wisconsin	206,054		207,862	207,862	207,868	1.80
Wyoming	27,610		28,292	28,292	28,294	0.24
American Samoa	6,298		6,358	6,358	6,298	0.05
Guam	13,962		14,098	14,098	13,962	0.12
Northern Mariana Islands	4,786		4,832	4,832	4,786	0.04
Puerto Rico	112,146		114,924	114,924	114,926	0.99
Freely Associated States	6,580		6,580	6,580	6,580	0.06
Virgin Islands	8,874		8,960	8,960	8,874	0.08
Indian Tribes	92,012		92,910	92,910	92,910	0.80
Undistributed						
Technical Assistance Set Aside	25,000		25,000	25,000	25,000	0.22
<b>Total</b>	<b>11,465,964</b>		<b>11,577,854</b>	<b>11,577,854</b>	<b>11,577,856</b>	<b>1 100.00</b>

NOTE: Totals do not reflect reductions in awards made pursuant to 20 U.S.C. 1412(a)(18)(B).

<sup>1</sup> Excludes undistributed obligations.



Department of Health and Human Services, Centers for Medicare and Medicaid Services

75-0515-0-1-551

Table 18-15. CHILDREN'S HEALTH INSURANCE PROGRAM (93.767)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	135,448		141,358	141,358	179,349	1.85
Alaska	19,830		21,005	21,005	23,415	0.24
Arizona	61,462		64,635	64,635	27,544	0.28
Arkansas	90,853		95,364	95,364	105,785	1.09
California	1,254,895		1,314,260	1,314,260	1,564,899	16.13
Colorado	123,499		130,420	130,420	136,071	1.40
Connecticut	31,320		32,686	32,686	46,374	0.48
Delaware	13,570		14,162	14,162	15,457	0.16
District of Columbia	11,989		12,611	12,611	11,679	0.12
Florida	324,871		339,812	339,812	368,755	3.80
Georgia	239,369		250,874	250,874	368,964	3.80
Hawaii	33,257		34,803	34,803	31,073	0.32
Idaho	36,206		37,945	37,945	43,198	0.45
Illinois	273,211		285,132	285,132	295,219	3.04
Indiana	94,539		98,664	98,664	132,501	1.37
Iowa	75,497		108,994	108,994	99,900	1.03
Kansas	55,864		58,771	58,771	59,230	0.61
Kentucky	129,601		135,474	135,474	153,662	1.58
Louisiana	186,019		195,190	195,190	154,928	1.60
Maine	35,490		37,038	37,038	31,984	0.33
Maryland	168,778		176,289	176,289	179,639	1.85
Massachusetts	316,955		330,784	330,784	340,147	3.51
Michigan	120,970		126,248	126,248	83,245	0.86
Minnesota	20,498		21,392	21,392	32,308	0.33
Mississippi	160,649		167,658	167,658	182,126	1.88
Missouri	112,711		117,629	117,629	124,000	1.28
Montana	38,466		40,144	40,144	60,762	0.63
Nebraska	38,943		40,961	40,961	43,392	0.45
Nevada	24,078		25,129	25,129	30,487	0.31
New Hampshire	12,821		13,380	13,380	20,379	0.21
New Jersey	592,188		618,026	618,026	684,928	7.06
New Mexico	245,492		258,655	258,655	160,931	1.66
New York	525,836		548,779	548,779	555,731	5.73
North Carolina	382,336		401,229	401,229	390,609	4.03
North Dakota	15,258		16,064	16,064	18,316	0.19
Ohio	277,965		290,093	290,093	314,480	3.24
Oklahoma	120,389		126,870	126,870	196,493	2.03
Oregon	91,102		95,355	95,355	153,783	1.59
Pennsylvania	321,847		335,890	335,890	318,371	3.28
Rhode Island	30,345		31,669	31,669	29,929	0.31
South Carolina	98,027		102,467	102,467	101,820	1.05
South Dakota	20,067		21,119	21,119	22,099	0.23
Tennessee	134,225		140,134	140,134	217,430	2.24
Texas	832,714		882,578	882,578	967,796	9.98
Utah	63,916		67,820	67,820	66,846	0.69
Vermont	5,794		6,047	6,047	19,215	0.20
Virginia	175,234		184,004	184,004	185,589	1.91
Washington	45,366		47,620	47,620	80,704	0.83
West Virginia	41,268		43,069	43,069	48,630	0.50
Wisconsin	102,733		107,215	107,215	93,949	0.97
Wyoming	9,989		10,443	10,443	10,880	0.11
American Samoa	939		980	980	1,023	0.01
Guam	4,178		4,360	4,360	4,550	0.05
Northern Mariana Islands	861		899	899	938	0.01
Puerto Rico	99,567		103,911	103,911	108,445	1.12
Freely Associated States						
Virgin Islands <sup>1</sup>						
Indian Tribes						
Undistributed	4,979,705		6,067,892	6,067,892	7,706,043	
<b>Total</b>	<b>13,459,000</b>		<b>14,982,000</b>	<b>14,982,000</b>	<b>17,406,000</b>	<sup>2</sup> <b>100.00</b>

NOTE: Obligations remain available for Federal payments for two years. The FY 2013 estimates will be determined by increasing the FY 2012 Federal payments made to States by growth factors in the Children's Health Insurance Program Reauthorization Act of 2009 (P.L. 111-3).

<sup>1</sup> Virgin Islands received no Federal payments from available allotments in 2010 or 2011, resulting in no new obligation in FY 2012 per allotment calculation methodology.

<sup>2</sup> Excludes undistributed obligations.

Department of Health and Human Services, Centers for Medicare and Medicaid Services

75-0512-0-1-551

Table 18-16. GRANTS TO STATES FOR MEDICAID (93.778)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	3,671,965		3,930,310	3,930,310	3,925,353	1.43
Alaska	896,368		886,755	886,755	945,031	0.34
Arizona	6,631,504		5,884,698	5,884,698	5,883,565	2.14
Arkansas	3,154,151		3,137,293	3,137,293	3,314,329	1.21
California	33,934,951		27,419,744	27,419,744	27,339,410	9.95
Colorado	2,556,574		2,455,882	2,455,882	2,457,346	0.89
Connecticut	3,353,879		3,023,007	3,023,007	3,130,456	1.14
Delaware	879,541		820,959	820,959	856,521	0.31
District of Columbia	1,636,792		1,490,306	1,490,306	1,497,898	0.55
Florida	11,701,750		10,982,906	10,982,906	12,070,614	4.39
Georgia	5,909,192		5,672,255	5,672,255	5,737,216	2.09
Hawaii	982,424		843,860	843,860	904,755	0.33
Idaho	1,179,865		1,247,826	1,247,826	1,346,363	0.49
Illinois	7,750,839		7,383,527	7,383,527	7,380,699	2.69
Indiana	4,912,614		5,116,332	5,116,332	5,198,839	1.89
Iowa	2,342,713		2,237,321	2,237,321	2,336,633	0.85
Kansas	1,817,792		1,658,743	1,658,743	1,674,268	0.61
Kentucky	4,463,867		4,318,509	4,318,509	4,266,825	1.55
Louisiana	4,915,949		4,959,701	4,959,701	4,835,716	1.76
Maine	1,718,098		1,412,106	1,412,106	1,461,383	0.53
Maryland	4,294,284		3,649,004	3,649,004	3,880,423	1.41
Massachusetts	7,720,873		6,822,025	6,822,025	6,721,584	2.45
Michigan	8,901,289		8,530,647	8,530,647	8,933,215	3.25
Minnesota	4,842,285		5,062,574	5,062,574	4,985,748	1.81
Mississippi	3,629,993		3,996,839	3,996,839	4,284,295	1.56
Missouri	5,707,097		5,953,069	5,953,069	5,939,561	2.16
Montana	739,807		802,755	802,755	735,972	0.27
Nebraska	1,111,627		1,073,333	1,073,333	1,101,109	0.40
Nevada	977,650		1,007,264	1,007,264	1,062,970	0.39
New Hampshire	803,103		689,098	689,098	711,272	0.26
New Jersey	6,177,327		5,857,980	5,857,980	6,047,156	2.20
New Mexico	2,616,293		2,793,499	2,793,499	3,290,363	1.20
New York	30,158,212		31,560,163	31,560,163	33,560,898	12.21
North Carolina	7,633,582		7,753,928	7,753,928	7,778,960	2.83
North Dakota	490,082		473,751	473,751	453,344	0.16
Ohio	11,058,492		11,592,756	11,592,756	11,675,254	4.25
Oklahoma	3,094,986		3,097,182	3,097,182	3,210,651	1.17
Oregon	3,175,351		3,127,377	3,127,377	3,233,606	1.18
Pennsylvania	13,227,690		12,164,818	12,164,818	12,469,159	4.54
Rhode Island	1,293,341		1,143,570	1,143,570	1,168,701	0.43
South Carolina	3,789,291		3,644,106	3,644,106	3,580,296	1.30
South Dakota	541,561		533,994	533,994	536,813	0.20
Tennessee	5,923,638		6,269,329	6,269,329	6,861,115	2.50
Texas	19,264,257		18,091,472	18,091,472	19,068,176	6.94
Utah	1,394,824		1,414,263	1,414,263	1,461,234	0.53
Vermont	844,559		857,581	857,581	847,755	0.31
Virginia	4,052,544		3,725,460	3,725,460	4,079,758	1.48
Washington	3,677,209		4,719,916	4,719,916	5,639,378	2.05
West Virginia	2,231,730		2,231,035	2,231,035	2,289,905	0.83
Wisconsin	4,736,191		4,251,605	4,251,605	4,441,083	1.62
Wyoming	325,558		305,074	305,074	305,185	0.11
American Samoa	13,408		13,873	13,873	14,039	0.01
Guam	17,404		21,656	21,656	21,411	0.01
Northern Mariana Islands	14,438		17,550	17,550	17,550	0.01
Puerto Rico	871,841		1,008,676	1,008,676	1,008,676	0.37
Freely Associated States						
Virgin Islands	19,621		33,265	33,265	33,265	0.01
Indian Tribes						
Undistributed	20,849,319		1,101,666	1,101,666	10,067,766	
Survey and Certification	215,826		228,000	228,000	230,280	0.08
Vaccines For Children	3,952,677		4,009,060	4,009,060	4,271,015	1.55
Fraud Control Units	215,319		215,973	215,973	237,200	0.09
Medicare Part B Transfer	703,327		535,000	535,000	695,000	0.25
Incurred But Not Reported	117,310		1,359,500	1,359,500	1,359,500	0.49
<b>Total</b>	<b>295,836,044</b>		<b>266,621,726</b>	<b>266,621,726</b>	<b>284,873,861</b>	<b>1 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1552-0-1-609

Table 18-17. TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)-FAMILY ASSISTANCE GRANTS (93.558)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	93,315		89,634	89,634	89,634	0.54
Alaska	45,260		43,475	43,475	43,475	0.26
Arizona	200,141		192,246	192,246	192,246	1.15
Arkansas	56,733		54,495	54,495	54,495	0.33
California	3,659,390		3,515,027	3,515,027	3,515,027	21.00
Colorado	136,057		130,689	130,689	130,689	0.78
Connecticut	266,788		256,263	256,263	256,263	1.53
Delaware	32,291		31,017	31,017	31,017	0.19
District of Columbia	92,610		88,956	88,956	88,956	0.53
Florida	562,340		540,156	540,156	540,156	3.23
Georgia	330,742		317,694	317,694	317,694	1.90
Hawaii	98,905		95,003	95,003	95,003	0.57
Idaho	30,413		29,213	29,213	29,213	0.17
Illinois	585,057		561,976	561,976	561,976	3.36
Indiana	206,799		198,641	198,641	198,641	1.19
Iowa	131,030		125,861	125,861	125,861	0.75
Kansas	101,931		97,910	97,910	97,910	0.58
Kentucky	181,288		174,136	174,136	174,136	1.04
Louisiana	163,972		157,503	157,503	157,503	0.94
Maine	78,121		75,039	75,039	75,039	0.45
Maryland	229,098		220,060	220,060	220,060	1.31
Massachusetts	459,371		441,249	441,249	441,249	2.64
Michigan	775,353		744,765	744,765	744,765	4.45
Minnesota	263,434		253,042	253,042	253,042	1.51
Mississippi	86,768		83,345	83,345	83,345	0.50
Missouri	217,052		208,489	208,489	208,489	1.25
Montana	38,039		36,538	36,538	36,538	0.22
Nebraska	57,514		55,245	55,245	55,245	0.33
Nevada	43,908		42,175	42,175	42,175	0.25
New Hampshire	38,521		37,002	37,002	37,002	0.22
New Jersey	404,035		388,096	388,096	388,096	2.32
New Mexico	110,578		106,216	106,216	106,216	0.63
New York	2,442,931		2,346,557	2,346,557	2,346,557	14.02
North Carolina	302,240		290,316	290,316	290,316	1.73
North Dakota	26,400		25,358	25,358	25,358	0.15
Ohio	727,968		699,250	699,250	699,250	4.18
Oklahoma	145,281		139,550	139,550	139,550	0.83
Oregon	166,799		160,218	160,218	160,218	0.96
Pennsylvania	719,499		691,115	691,115	691,115	4.13
Rhode Island	95,022		91,273	91,273	91,273	0.55
South Carolina	99,968		96,024	96,024	96,024	0.57
South Dakota	21,280		20,440	20,440	20,440	0.12
Tennessee	191,524		183,968	183,968	183,968	1.10
Texas	486,257		467,074	467,074	467,074	2.79
Utah	75,609		72,627	72,627	72,627	0.43
Vermont	47,353		45,485	45,485	45,485	0.27
Virginia	158,285		152,041	152,041	152,041	0.91
Washington	380,545		365,532	365,532	365,532	2.18
West Virginia	110,176		105,830	105,830	105,830	0.63
Wisconsin	314,499		302,092	302,092	302,092	1.80
Wyoming	18,501		17,771	17,771	17,771	0.11
American Samoa						
Guam	3,465		3,465	3,465	3,465	0.02
Northern Mariana Islands						
Puerto Rico	71,047		71,047	71,047	71,047	0.42
Freely Associated States						
Virgin Islands	2,847		2,847	2,847	2,847	0.02
Indian Tribes	222,274		213,506	213,506	213,506	1.28
Undistributed						
Training and Technical Assistance						
Discretionary Funds	150,000		150,000	150,000	150,000	0.90
Other	177,972		634,633	634,633	634,633	3.79
<b>Total</b>	<b>16,934,596</b>		<b>16,739,175</b>	<b>16,739,175</b>	<b>16,739,175</b>	<sup>1</sup> 100.00

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1501-0-1-609

**Table 18–18. CHILD SUPPORT ENFORCEMENT-FEDERAL SHARE OF STATE AND LOCAL ADMINISTRATIVE COSTS AND INCENTIVES (93.563)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	52,681		48,902	48,902	46,772	1.16
Alaska	19,779		18,360	18,360	17,560	0.43
Arizona	48,765		45,267	45,267	43,296	1.07
Arkansas	40,860		37,929	37,929	36,277	0.90
California	742,423		689,163	689,163	659,149	16.31
Colorado	64,266		59,656	59,656	57,058	1.41
Connecticut	51,480		47,787	47,787	45,705	1.13
Delaware	28,382		26,346	26,346	25,198	0.62
District of Columbia	19,433		18,039	18,039	17,253	0.43
Florida	232,365		215,696	215,696	206,302	5.10
Georgia	104,548		97,048	97,048	92,821	2.30
Hawaii	15,083		14,001	14,001	13,391	0.33
Idaho	15,948		14,804	14,804	14,160	0.35
Illinois	147,196		136,637	136,637	130,686	3.23
Indiana	104,608		97,104	97,104	92,875	2.30
Iowa	46,983		43,613	43,613	41,714	1.03
Kansas	42,176		39,150	39,150	37,445	0.93
Kentucky	69,093		64,137	64,137	61,343	1.52
Louisiana	70,035		65,010	65,010	62,179	1.54
Maine	21,379		19,846	19,846	18,981	0.47
Maryland	123,014		114,189	114,189	109,216	2.70
Massachusetts	62,473		57,991	57,991	55,465	1.37
Michigan	166,588		154,637	154,637	147,902	3.66
Minnesota	129,685		120,382	120,382	115,139	2.85
Mississippi	33,751		31,330	31,330	29,965	0.74
Missouri	56,556		52,499	52,499	50,213	1.24
Montana	8,729		8,103	8,103	7,750	0.19
Nebraska	30,958		28,737	28,737	27,486	0.68
Nevada	36,582		33,958	33,958	32,479	0.80
New Hampshire	17,031		15,810	15,810	15,121	0.37
New Jersey	181,286		168,281	168,281	160,952	3.98
New Mexico	37,384		34,702	34,702	33,191	0.82
New York	291,684		270,760	270,760	258,968	6.41
North Carolina	115,478		107,194	107,194	102,525	2.54
North Dakota	12,999		12,066	12,066	11,541	0.29
Ohio	239,368		222,196	222,196	212,519	5.26
Oklahoma	52,332		48,578	48,578	46,462	1.15
Oregon	53,001		49,198	49,198	47,056	1.16
Pennsylvania	177,589		164,849	164,849	157,669	3.90
Rhode Island	17,944		16,656	16,656	15,931	0.39
South Carolina	44,732		41,523	41,523	39,715	0.98
South Dakota	7,324		6,798	6,798	6,502	0.16
Tennessee	68,004		63,126	63,126	60,377	1.49
Texas	274,771		255,059	255,059	243,951	6.04
Utah	41,247		38,288	38,288	36,621	0.91
Vermont	11,778		10,933	10,933	10,457	0.26
Virginia	67,375		62,542	62,542	59,818	1.48
Washington	120,497		111,853	111,853	106,982	2.65
West Virginia	31,505		29,245	29,245	27,972	0.69
Wisconsin	94,405		87,633	87,633	83,816	2.07
Wyoming	8,480		7,871	7,871	7,528	0.19
American Samoa						
Guam						
Northern Mariana Islands						
Puerto Rico						
Freely Associated States						
Virgin Islands						
Indian Tribes						
Undistributed						
Other	1 2,000					
<b>Total</b>	<b>4,554,033</b>		<b>4,225,482</b>	<b>4,225,482</b>	<b>4,041,454</b>	<b>2 100.00</b>

<sup>1</sup> 1115 Discretionary Grant award pending final state allocation.

<sup>2</sup> Excludes undistributed obligations.



Department of Health and Human Services, Administration for Children and Families

75-1502-0-1-609

Table 18–19. LOW INCOME HOME ENERGY ASSISTANCE PROGRAM (93.568)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	59,010	.....	47,081	47,081	39,474	1.40
Alaska .....	14,327	.....	10,641	10,641	8,549	0.30
Arizona .....	30,214	.....	21,904	21,904	17,653	0.63
Arkansas .....	34,985	.....	28,538	28,538	24,039	0.85
California .....	201,117	.....	153,259	153,259	123,636	4.38
Colorado .....	62,139	.....	47,309	47,309	38,348	1.36
Connecticut .....	98,254	.....	79,533	79,533	65,592	2.33
Delaware .....	15,172	.....	11,957	11,957	10,053	0.36
District of Columbia .....	14,051	.....	10,687	10,687	8,586	0.30
Florida .....	107,686	.....	78,020	78,020	62,877	2.23
Georgia .....	85,164	.....	61,703	61,703	49,726	1.76
Hawaii .....	6,027	.....	6,107	6,107	5,008	0.18
Idaho .....	25,736	.....	19,578	19,578	15,728	0.56
Illinois .....	238,712	.....	185,686	185,686	148,409	5.26
Indiana .....	102,743	.....	80,000	80,000	63,277	2.24
Iowa .....	68,137	.....	54,813	54,813	44,431	1.58
Kansas .....	42,327	.....	32,119	32,119	26,443	0.94
Kentucky .....	58,335	.....	46,424	46,424	37,539	1.33
Louisiana .....	53,164	.....	43,422	43,422	37,197	1.32
Maine .....	51,464	.....	38,521	38,521	31,225	1.11
Maryland .....	85,523	.....	69,791	69,791	58,778	2.08
Massachusetts .....	175,104	.....	132,680	132,680	105,806	3.75
Michigan .....	227,108	.....	172,431	172,431	137,254	4.87
Minnesota .....	145,241	.....	116,840	116,840	94,710	3.36
Mississippi .....	38,756	.....	31,531	31,531	26,504	0.94
Missouri .....	95,596	.....	68,232	68,232	55,308	1.96
Montana .....	25,912	.....	19,916	19,916	16,000	0.57
Nebraska .....	39,738	.....	30,208	30,208	24,282	0.86
Nevada .....	15,462	.....	11,203	11,203	9,028	0.32
New Hampshire .....	34,255	.....	26,055	26,055	20,932	0.74
New Jersey .....	180,991	.....	136,747	136,747	111,275	3.95
New Mexico .....	20,573	.....	15,715	15,715	12,625	0.45
New York .....	495,532	.....	375,514	375,514	303,168	10.75
North Carolina .....	109,284	.....	81,535	81,535	68,746	2.44
North Dakota .....	26,574	.....	20,555	20,555	16,513	0.59
Ohio .....	225,398	.....	165,465	165,465	132,443	4.70
Oklahoma .....	43,339	.....	32,788	32,788	27,776	0.98
Oregon .....	44,847	.....	36,013	36,013	29,116	1.03
Pennsylvania .....	280,478	.....	209,551	209,551	166,027	5.89
Rhode Island .....	29,701	.....	23,176	23,176	18,710	0.66
South Carolina .....	46,909	.....	36,270	36,270	31,338	1.11
South Dakota .....	22,878	.....	17,508	17,508	14,065	0.50
Tennessee .....	71,595	.....	55,406	55,406	46,087	1.63
Texas .....	179,200	.....	129,833	129,833	104,633	3.71
Utah .....	31,708	.....	24,101	24,101	19,350	0.69
Vermont .....	25,675	.....	19,529	19,529	15,689	0.56
Virginia .....	102,839	.....	80,437	80,437	67,196	2.38
Washington .....	71,774	.....	57,968	57,968	46,987	1.67
West Virginia .....	39,047	.....	29,700	29,700	23,860	0.85
Wisconsin .....	130,738	.....	105,173	105,173	85,252	3.02
Wyoming .....	12,480	.....	9,502	9,502	7,631	0.27
American Samoa .....	101	.....	77	77	63	*
Guam .....	221	.....	169	169	137	*
Northern Mariana Islands .....	77	.....	59	59	48	*
Puerto Rico .....	5,487	.....	4,196	4,196	3,402	0.12
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	209	.....	160	160	130	*
Indian Tribes .....	51,238	.....	38,429	38,429	31,345	1.11
Undistributed .....	.....	.....	.....	.....	.....	.....
Training and Technical Assistance .....	300	.....	2,994	2,994	3,000	0.11
Discretionary Funds .....	.....	.....	26,949	26,949	27,000	0.96
<b>Total .....</b>	<b>4,500,652</b>	<b>.....</b>	<b>3,471,710</b>	<b><sup>1</sup> 3,471,710</b>	<b>2,820,004</b>	<b><sup>2</sup> 100.00</b>

\* \$500 or less or 0.005 percent or less.

<sup>1</sup> The 2012 enacted State allocations are subject to change based on tribal agreements, therefore the final State allocation will be included on the HHS/ACF Office of Community Services web site. In addition to 2012 appropriated funding, this column also incdes \$35,933 allocated to States from prior year block grant appropriations.<sup>2</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1515-0-1-609

**Table 18–20. CHILD CARE AND DEVELOPMENT BLOCK GRANT (93.575)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	41,803		42,842	42,842	43,128	1.66
Alaska	4,316		4,533	4,533	4,563	0.18
Arizona	57,396		56,867	56,867	57,247	2.20
Arkansas	27,615		28,143	28,143	28,331	1.09
California	243,237		244,005	244,005	245,633	9.44
Colorado	27,524		28,442	28,442	28,632	1.10
Connecticut	14,525		14,940	14,940	15,040	0.58
Delaware	5,327		5,530	5,530	5,567	0.21
District of Columbia	2,936		2,962	2,962	2,982	0.11
Florida	118,478		121,010	121,010	121,817	4.68
Georgia	92,441		92,991	92,991	93,612	3.60
Hawaii	6,906		7,683	7,683	7,734	0.30
Idaho	13,523		14,245	14,245	14,340	0.55
Illinois	79,138		80,079	80,079	80,613	3.10
Indiana	50,126		52,761	52,761	53,114	2.04
Iowa	19,975		21,098	21,098	21,238	0.82
Kansas	20,387		21,640	21,640	21,784	0.84
Kentucky	39,059		39,581	39,581	39,845	1.53
Louisiana	41,175		42,491	42,491	42,774	1.64
Maine	7,348		7,791	7,791	7,843	0.30
Maryland	26,461		27,564	27,564	27,748	1.07
Massachusetts	26,325		27,066	27,066	27,247	1.05
Michigan	67,357		70,025	70,025	70,492	2.71
Minnesota	28,889		30,691	30,691	30,896	1.19
Mississippi	33,140		33,335	33,335	33,557	1.29
Missouri	42,790		44,385	44,385	44,681	1.72
Montana	6,342		6,771	6,771	6,817	0.26
Nebraska	12,873		13,439	13,439	13,529	0.52
Nevada	16,026		16,530	16,530	16,641	0.64
New Hampshire	5,178		5,353	5,353	5,389	0.21
New Jersey	38,258		40,080	40,080	40,348	1.55
New Mexico	19,675		20,077	20,077	20,211	0.78
New York	100,442		101,521	101,521	102,199	3.93
North Carolina	74,539		76,128	76,128	76,636	2.94
North Dakota	3,867		4,156	4,156	4,184	0.16
Ohio	76,947		80,389	80,389	80,925	3.11
Oklahoma	32,596		33,887	33,887	34,113	1.31
Oregon	25,408		26,225	26,225	26,400	1.01
Pennsylvania	66,884		69,645	69,645	70,110	2.69
Rhode Island	5,502		5,622	5,622	5,659	0.22
South Carolina	40,042		41,233	41,233	41,508	1.59
South Dakota	5,861		6,221	6,221	6,263	0.24
Tennessee	51,396		52,890	52,890	53,243	2.05
Texas	239,220		242,999	242,999	244,621	9.40
Utah	25,788		27,266	27,266	27,448	1.05
Vermont	3,060		3,204	3,204	3,225	0.12
Virginia	41,971		43,445	43,445	43,735	1.68
Washington	37,286		39,115	39,115	39,376	1.51
West Virginia	13,861		14,362	14,362	14,458	0.56
Wisconsin	33,862		36,035	36,035	36,276	1.39
Wyoming	2,771		2,982	2,982	3,002	0.12
American Samoa	2,929		3,002	3,002	3,022	0.12
Guam	4,191		4,296	4,296	4,324	0.17
Northern Mariana Islands	1,858		1,905	1,905	1,918	0.07
Puerto Rico	33,763		32,513	32,513	32,730	1.26
Freely Associated States						
Virgin Islands	2,135		2,189	2,189	2,203	0.08
Indian Tribes	43,452		44,567	44,567	44,754	1.72
Undistributed						
Training and Technical Assistance	5,343		5,671	5,671	11,467	0.44
Discretionary Funds	1,000				1,000	0.04
Other	9,882		11,894	11,894	315,121	12.10
ARRA Technical Asst						
<b>Total</b>	<b>2,222,405</b>		<b>2,278,312</b>	<b>2,278,312</b>	<b>2,603,313</b>	<b>100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1550-0-1-609

Table 18–21. CHILD CARE AND DEVELOPMENT FUND-MANDATORY (93.596A)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	16,442	.....	16,442	16,442	16,442	1.31
Alaska .....	3,545	.....	3,545	3,545	3,545	0.28
Arizona .....	19,827	.....	19,827	19,827	19,827	1.58
Arkansas .....	5,300	.....	5,300	5,300	5,300	0.42
California .....	85,593	.....	85,593	85,593	85,593	6.84
Colorado .....	10,174	.....	10,174	10,174	10,174	0.81
Connecticut .....	18,738	.....	18,738	18,738	18,738	1.50
Delaware .....	5,179	.....	5,179	5,179	5,179	0.41
District of Columbia .....	4,567	.....	4,567	4,567	4,567	0.36
Florida .....	43,027	.....	43,027	43,027	43,027	3.44
Georgia .....	36,548	.....	36,548	36,548	36,548	2.92
Hawaii .....	4,972	.....	4,972	4,972	4,972	0.40
Idaho .....	2,868	.....	2,868	2,868	2,868	0.23
Illinois .....	56,874	.....	56,874	56,874	56,874	4.54
Indiana .....	26,182	.....	26,182	26,182	26,182	2.09
Iowa .....	8,508	.....	8,508	8,508	8,508	0.68
Kansas .....	9,812	.....	9,812	9,812	9,812	0.78
Kentucky .....	16,702	.....	16,702	16,702	16,702	1.33
Louisiana .....	13,865	.....	13,865	13,865	13,865	1.11
Maine .....	3,019	.....	3,019	3,019	3,019	0.24
Maryland .....	23,301	.....	23,301	23,301	23,301	1.86
Massachusetts .....	44,973	.....	44,973	44,973	44,973	3.59
Michigan .....	32,082	.....	32,082	32,082	32,082	2.56
Minnesota .....	23,368	.....	23,368	23,368	23,368	1.87
Mississippi .....	6,293	.....	6,293	6,293	6,293	0.50
Missouri .....	24,669	.....	24,669	24,669	24,669	1.97
Montana .....	3,191	.....	3,191	3,191	3,191	0.25
Nebraska .....	10,595	.....	10,595	10,595	10,595	0.85
Nevada .....	2,580	.....	2,580	2,580	2,580	0.21
New Hampshire .....	4,582	.....	4,582	4,582	4,582	0.37
New Jersey .....	26,374	.....	26,374	26,374	26,374	2.11
New Mexico .....	8,308	.....	8,308	8,308	8,308	0.66
New York .....	101,984	.....	101,984	101,984	101,984	8.15
North Carolina .....	69,639	.....	69,639	69,639	69,639	5.56
North Dakota .....	2,506	.....	2,506	2,506	2,506	0.20
Ohio .....	70,125	.....	70,125	70,125	70,125	5.60
Oklahoma .....	24,910	.....	24,910	24,910	24,910	1.99
Oregon .....	19,409	.....	19,409	19,409	19,409	1.55
Pennsylvania .....	55,337	.....	55,337	55,337	55,337	4.42
Rhode Island .....	6,634	.....	6,634	6,634	6,634	0.53
South Carolina .....	9,867	.....	9,867	9,867	9,867	0.79
South Dakota .....	1,711	.....	1,711	1,711	1,711	0.14
Tennessee .....	37,702	.....	37,702	37,702	37,702	3.01
Texas .....	59,844	.....	59,844	59,844	59,844	4.78
Utah .....	12,592	.....	12,592	12,592	12,592	1.01
Vermont .....	3,945	.....	3,945	3,945	3,945	0.32
Virginia .....	21,329	.....	21,329	21,329	21,329	1.70
Washington .....	41,883	.....	41,883	41,883	41,883	3.35
West Virginia .....	8,727	.....	8,727	8,727	8,727	0.70
Wisconsin .....	24,511	.....	24,511	24,511	24,511	1.96
Wyoming .....	2,815	.....	2,815	2,815	2,815	0.22
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	.....	.....	.....	.....	.....	.....
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	.....	.....	.....	.....	.....	.....
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	.....	.....	.....	.....	.....	.....
Indian Tribes .....	58,340	.....	58,340	58,340	68,340	5.46
Undistributed .....	.....	.....	.....	.....	.....	.....
Training and Technical Assistance .....	3,792	.....	3,792	3,792	6,229	0.50
<b>Total .....</b>	<b>1,239,660</b>	<b>.....</b>	<b>1,239,660</b>	<b>1,239,660</b>	<b>1,252,097</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1550-0-1-609

**Table 18–22. CHILD CARE AND DEVELOPMENT FUND-MATCHING (93.596B)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	25,223		25,223	25,223	32,460	1.50
Alaska	4,131		4,131	4,131	5,317	0.25
Arizona	39,839		39,839	39,839	51,269	2.37
Arkansas	16,048		16,048	16,048	20,652	0.95
California	211,577		211,577	211,577	272,277	12.58
Colorado	28,143		28,143	28,143	36,217	1.67
Connecticut	17,637		17,637	17,637	22,697	1.05
Delaware	4,643		4,643	4,643	5,975	0.28
District of Columbia	2,605		2,605	2,605	3,353	0.15
Florida	91,041		91,041	91,041	117,160	5.41
Georgia	58,916		58,916	58,916	75,819	3.50
Hawaii	6,606		6,606	6,606	8,501	0.39
Idaho	9,582		9,582	9,582	12,331	0.57
Illinois	71,135		71,135	71,135	91,543	4.23
Indiana	35,597		35,597	35,597	45,809	2.12
Iowa	15,937		15,937	15,937	20,510	0.95
Kansas	15,968		15,968	15,968	20,549	0.95
Kentucky	22,749		22,749	22,749	29,275	1.35
Louisiana	25,259		25,259	25,259	32,505	1.50
Maine	5,849		5,849	5,849	7,527	0.35
Maryland	30,076		30,076	30,076	38,704	1.79
Massachusetts	31,542		31,542	31,542	40,591	1.87
Michigan	51,246		51,246	51,246	65,947	3.05
Minnesota	28,280		28,280	28,280	36,393	1.68
Mississippi	17,273		17,273	17,273	22,229	1.03
Missouri	31,907		31,907	31,907	41,060	1.90
Montana	4,861		4,861	4,861	6,255	0.29
Nebraska	10,258		10,258	10,258	13,201	0.61
Nevada	15,609		15,609	15,609	20,087	0.93
New Hampshire	6,236		6,236	6,236	8,026	0.37
New Jersey	45,397		45,397	45,397	58,421	2.70
New Mexico	11,612		11,612	11,612	14,944	0.69
New York	97,517		97,517	97,517	125,494	5.80
North Carolina	51,912		51,912	51,912	66,804	3.09
North Dakota	3,210		3,210	3,210	4,132	0.19
Ohio	59,977		59,977	59,977	77,183	3.57
Oklahoma	20,928		20,928	20,928	26,932	1.24
Oregon	19,563		19,563	19,563	25,175	1.16
Pennsylvania	60,584		60,584	60,584	77,965	3.60
Rhode Island	4,943		4,943	4,943	6,361	0.29
South Carolina	24,304		24,304	24,304	31,277	1.44
South Dakota	4,498		4,498	4,498	5,788	0.27
Tennessee	33,541		33,541	33,541	43,164	1.99
Texas	159,360		159,360	159,360	205,079	9.47
Utah	7,500		20,482	20,482	26,359	1.22
Vermont	2,698		2,698	2,698	3,472	0.16
Virginia	41,691		41,691	41,691	53,652	2.48
Washington	35,238		35,238	35,238	45,347	2.09
West Virginia	8,566		8,566	8,566	11,023	0.51
Wisconsin	29,044		29,044	29,044	37,377	1.73
Wyoming	3,003		3,003	3,003	3,864	0.18
American Samoa						
Guam						
Northern Mariana Islands						
Puerto Rico						
Freely Associated States						
Virgin Islands						
Indian Tribes						
Undistributed						
Training and Technical Assistance	3,487		3,501	3,501	10,856	0.50
<b>Total</b>	<b>1,664,346</b>		<b>1,677,342</b>	<b>1,677,342</b>	<b>2,164,908</b>	<b>1 100.00</b>

<sup>1</sup> Excludes undistributed obligations.



Department of Health and Human Services, Administration for Children and Families

75-1536-0-1-506

Table 18–23. HEAD START (93.600)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	118,539		126,116	126,116	126,860	1.58
Alaska	13,700		14,419	14,419	14,504	0.18
Arizona	114,920		122,133	122,133	122,853	1.53
Arkansas	71,285		75,415	75,415	75,859	0.94
California	913,314		961,005	961,005	966,675	12.00
Colorado	76,084		81,055	81,055	81,533	1.01
Connecticut	56,483		58,942	58,942	59,290	0.74
Delaware	14,583		15,390	15,390	15,481	0.19
District of Columbia	27,048		27,955	27,955	28,120	0.35
Florida	294,051		314,304	314,304	316,157	3.93
Georgia	187,289		199,226	199,226	200,401	2.49
Hawaii	24,751		25,675	25,675	25,827	0.32
Idaho	25,538		27,339	27,339	27,500	0.34
Illinois	298,559		315,322	315,322	317,181	3.94
Indiana	107,841		115,588	115,588	116,270	1.44
Iowa	56,555		59,456	59,456	59,806	0.74
Kansas	56,494		59,990	59,990	60,344	0.75
Kentucky	119,071		125,904	125,904	126,646	1.57
Louisiana	160,186		168,513	168,513	169,507	2.10
Maine	30,187		31,634	31,634	31,821	0.40
Maryland	85,450		89,677	89,677	90,206	1.12
Massachusetts	117,951		123,114	123,114	123,840	1.54
Michigan	256,330		268,517	268,517	270,101	3.35
Minnesota	79,494		84,053	84,053	84,549	1.05
Mississippi	174,610		180,887	180,887	181,954	2.26
Missouri	131,620		139,406	139,406	140,228	1.74
Montana	22,933		24,062	24,062	24,203	0.30
Nebraska	39,924		42,322	42,322	42,571	0.53
Nevada	27,656		30,055	30,055	30,232	0.38
New Hampshire	14,761		15,590	15,590	15,682	0.19
New Jersey	142,163		150,054	150,054	150,939	1.87
New Mexico	58,583		62,749	62,749	63,119	0.78
New York	473,230		495,550	495,550	498,472	6.19
North Carolina	159,628		172,280	172,280	173,297	2.15
North Dakota	18,999		20,123	20,123	20,242	0.25
Ohio	272,267		287,577	287,577	289,273	3.59
Oklahoma	91,151		97,976	97,976	98,554	1.22
Oregon	66,205		70,528	70,528	70,943	0.88
Pennsylvania	250,062		262,632	262,632	264,181	3.28
Rhode Island	24,020		25,123	25,123	25,271	0.31
South Carolina	92,681		99,523	99,523	100,110	1.24
South Dakota	20,634		21,674	21,674	21,802	0.27
Tennessee	130,886		137,558	137,558	138,369	1.72
Texas	529,792		561,395	561,395	564,706	7.01
Utah	42,275		45,256	45,256	45,523	0.57
Vermont	14,654		15,191	15,191	15,281	0.19
Virginia	109,393		115,652	115,652	116,334	1.44
Washington	111,138		117,831	117,831	118,526	1.47
West Virginia	55,548		58,385	58,385	58,730	0.73
Wisconsin	100,051		105,518	105,518	106,140	1.32
Wyoming	13,182		13,481	13,481	13,560	0.17
American Samoa	2,256		2,273	2,273	2,286	0.03
Guam	2,370		2,488	2,488	2,503	0.03
Northern Mariana Islands	1,746		1,759	1,759	1,769	0.02
Puerto Rico	269,247		278,933	278,933	280,578	3.48
Freely Associated States						
Virgin Islands	8,888		9,454	9,454	9,510	0.12
Indian Tribes	214,892		224,601	224,601	225,925	2.81
Undistributed						
Palau	1,399		1,409	1,409	1,418	0.02
Training and Technical Assistance	184,686		199,214	199,214	199,214	2.47
Discretionary Funds					<sup>1</sup> 40,000	0.50
Other	61,846		61,883	61,883	61,833	0.77
Migrant Program	317,889		327,410	327,410	329,341	4.09
<b>Total</b>	<b>7,558,968</b>		<b>7,968,544</b>	<b>7,968,544</b>	<b>8,054,000</b>	<sup>2</sup> <b>100.00</b>

\* \$500 or less or 0.005 percent or less.

<sup>1</sup> These funds are requested in FY 2013 to minimize the disruptions in Head Start services to families and children during the implementation of the Designation Renewal System. Funds will be awarded to grantees on an as-needed basis during the two-year transition period.<sup>2</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1545-0-1-609

**Table 18–24. FOSTER CARE-TITLE IV-E (93.658)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	35,959		33,753	33,753	33,919	0.82
Alaska	15,518		14,566	14,566	14,637	0.35
Arizona	73,737		69,214	69,214	69,553	1.68
Arkansas	40,021		37,566	37,566	37,750	0.91
California	1,180,958		1,108,520	1,108,520	1,113,949	26.87
Colorado	57,845		54,297	54,297	54,563	1.32
Connecticut	56,921		53,430	53,430	53,691	1.30
Delaware	4,560		4,280	4,280	4,301	0.10
District of Columbia	31,703		29,758	29,758	29,904	0.72
Florida	166,184		155,991	155,991	156,754	3.78
Georgia	82,780		77,702	77,702	78,083	1.88
Hawaii	23,574		22,128	22,128	22,236	0.54
Idaho	10,770		10,109	10,109	10,159	0.25
Illinois	188,412		176,855	176,855	177,721	4.29
Indiana	108,135		101,502	101,502	101,999	2.46
Iowa	23,861		22,397	22,397	22,507	0.54
Kansas	24,992		23,459	23,459	23,574	0.57
Kentucky	38,225		35,880	35,880	36,056	0.87
Louisiana	43,522		40,852	40,852	41,052	0.99
Maine	18,593		17,453	17,453	17,538	0.42
Maryland	63,350		59,464	59,464	59,755	1.44
Massachusetts	60,840		57,108	57,108	57,388	1.38
Michigan	95,756		89,882	89,882	90,323	2.18
Minnesota	41,482		38,938	38,938	39,128	0.94
Mississippi	15,740		14,775	14,775	14,847	0.36
Missouri	45,492		42,702	42,702	42,911	1.03
Montana	12,453		11,689	11,689	11,746	0.28
Nebraska	17,194		16,139	16,139	16,218	0.39
Nevada	35,126		32,971	32,971	33,133	0.80
New Hampshire	17,478		16,406	16,406	16,486	0.40
New Jersey	89,389		83,906	83,906	84,317	2.03
New Mexico	25,170		23,626	23,626	23,742	0.57
New York	390,692		366,728	366,728	368,524	8.89
North Carolina	76,271		71,593	71,593	71,943	1.74
North Dakota	9,898		9,291	9,291	9,336	0.23
Ohio	175,867		165,080	165,080	165,888	4.00
Oklahoma	32,804		30,792	30,792	30,943	0.75
Oregon	90,742		85,176	85,176	85,593	2.06
Pennsylvania	224,948		211,150	211,150	212,184	5.12
Rhode Island	13,325		12,508	12,508	12,569	0.30
South Carolina	26,251		24,641	24,641	24,761	0.60
South Dakota	6,272		5,887	5,887	5,916	0.14
Tennessee	47,788		44,857	44,857	45,076	1.09
Texas	246,853		231,711	231,711	232,846	5.62
Utah	22,917		21,511	21,511	21,617	0.52
Vermont	9,484		8,902	8,902	8,946	0.22
Virginia	55,346		51,951	51,951	52,206	1.26
Washington	85,102		79,882	79,882	80,273	1.94
West Virginia	26,942		25,289	25,289	25,413	0.61
Wisconsin	61,326		57,564	57,564	57,846	1.40
Wyoming	2,307		2,165	2,165	2,176	0.05
American Samoa						
Guam						
Northern Mariana Islands						
Puerto Rico						
Freely Associated States						
Virgin Islands						
Indian Tribes					16,000	0.39
Undistributed						
Training and Technical Assistance	23,776		26,000	26,000	26,000	0.63
Other	84,712					
<b>Total</b>	<b>4,459,363</b>		<b>4,109,996</b>	<b>4,109,996</b>	<b>4,145,996</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75-1545-0-1-609

Table 18–25. ADOPTION ASSISTANCE (93.659)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	12,508	.....	13,333	13,333	14,007	0.55
Alaska .....	10,906	.....	11,626	11,626	12,213	0.48
Arizona .....	79,535	.....	84,783	84,783	89,066	3.51
Arkansas .....	14,756	.....	15,730	15,730	16,524	0.65
California .....	413,508	.....	440,791	440,791	463,059	18.25
Colorado .....	19,455	.....	20,739	20,739	21,786	0.86
Connecticut .....	34,208	.....	36,465	36,465	38,307	1.51
Delaware .....	1,771	.....	1,888	1,888	1,983	0.08
District of Columbia .....	20,448	.....	21,797	21,797	22,899	0.90
Florida .....	87,222	.....	92,977	92,977	97,674	3.85
Georgia .....	37,188	.....	39,642	39,642	41,645	1.64
Hawaii .....	13,754	.....	14,661	14,661	15,402	0.61
Idaho .....	6,258	.....	6,671	6,671	7,008	0.28
Illinois .....	93,552	.....	99,725	99,725	104,762	4.13
Indiana .....	63,607	.....	67,804	67,804	71,229	2.81
Iowa .....	33,616	.....	35,834	35,834	37,644	1.48
Kansas .....	15,194	.....	16,196	16,196	17,015	0.67
Kentucky .....	42,868	.....	45,696	45,696	48,005	1.89
Louisiana .....	17,049	.....	18,174	18,174	19,092	0.75
Maine .....	12,513	.....	13,339	13,339	14,012	0.55
Maryland .....	25,154	.....	26,814	26,814	28,168	1.11
Massachusetts .....	34,569	.....	36,850	36,850	38,711	1.53
Michigan .....	114,023	.....	121,546	121,546	127,687	5.03
Minnesota .....	29,742	.....	31,704	31,704	33,306	1.31
Mississippi .....	6,523	.....	6,953	6,953	7,305	0.29
Missouri .....	31,219	.....	33,279	33,279	34,960	1.38
Montana .....	6,839	.....	7,290	7,290	7,659	0.30
Nebraska .....	10,627	.....	11,328	11,328	11,900	0.47
Nevada .....	15,181	.....	16,183	16,183	17,000	0.67
New Hampshire .....	5,321	.....	5,672	5,672	5,959	0.23
New Jersey .....	49,721	.....	53,002	53,002	55,679	2.19
New Mexico .....	16,920	.....	18,036	18,036	18,948	0.75
New York .....	197,537	.....	210,570	210,570	221,207	8.72
North Carolina .....	51,019	.....	54,385	54,385	57,133	2.25
North Dakota .....	4,987	.....	5,316	5,316	5,584	0.22
Ohio .....	152,039	.....	162,071	162,071	170,258	6.71
Oklahoma .....	30,458	.....	32,468	32,468	34,107	1.34
Oregon .....	37,104	.....	39,552	39,552	41,550	1.64
Pennsylvania .....	95,504	.....	101,805	101,805	106,948	4.22
Rhode Island .....	8,118	.....	8,654	8,654	9,091	0.36
South Carolina .....	13,967	.....	14,889	14,889	15,640	0.62
South Dakota .....	3,705	.....	3,949	3,949	4,149	0.16
Tennessee .....	38,771	.....	41,329	41,329	43,417	1.71
Texas .....	90,549	.....	96,523	96,523	101,400	4.00
Utah .....	7,511	.....	8,007	8,007	8,411	0.33
Vermont .....	8,032	.....	8,562	8,562	8,995	0.35
Virginia .....	26,418	.....	28,161	28,161	29,584	1.17
Washington .....	53,832	.....	57,384	57,384	60,283	2.38
West Virginia .....	18,353	.....	19,564	19,564	20,552	0.81
Wisconsin .....	50,972	.....	54,335	54,335	57,080	2.25
Wyoming .....	890	.....	949	949	997	0.04
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	.....	.....	.....	.....	.....	.....
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	.....	.....	.....	.....	.....	.....
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	.....	.....	.....	.....	.....	.....
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
Other .....	96,476	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>2,361,997</b>	<b>.....</b>	<b>2,415,001</b>	<b>2,415,001</b>	<b>2,537,000</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Health and Human Services, Administration for Children and Families

75.1534-0-1-506

**Table 18–26. SOCIAL SERVICES BLOCK GRANT (93.667)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	25,928		26,171	26,171	26,171	1.54
Alaska	3,846		3,889	3,889	3,889	0.23
Arizona	36,319		34,999	34,999	34,999	2.06
Arkansas	15,911		15,966	15,966	15,966	0.94
California	203,527		203,980	203,980	203,980	12.00
Colorado	27,668		27,537	27,537	27,537	1.62
Connecticut	19,373		19,570	19,570	19,570	1.15
Delaware	4,874		4,917	4,917	4,917	0.29
District of Columbia	3,302		3,295	3,295	3,295	0.19
Florida	102,078		102,944	102,944	102,944	6.06
Georgia	54,124		53,044	53,044	53,044	3.12
Hawaii	7,132		7,448	7,448	7,448	0.44
Idaho	8,512		8,583	8,583	8,583	0.50
Illinois	71,090		70,253	70,253	70,253	4.13
Indiana	35,368		35,501	35,501	35,501	2.09
Iowa	16,563		16,680	16,680	16,680	0.98
Kansas	15,521		15,622	15,622	15,622	0.92
Kentucky	23,755		23,760	23,760	23,760	1.40
Louisiana	24,735		24,822	24,822	24,822	1.46
Maine	7,259		7,273	7,273	7,273	0.43
Maryland	31,384		31,612	31,612	31,612	1.86
Massachusetts	36,307		35,851	35,851	35,851	2.11
Michigan	54,898		54,117	54,117	54,117	3.18
Minnesota	28,998		29,041	29,041	29,041	1.71
Mississippi	16,255		16,247	16,247	16,247	0.96
Missouri	32,970		32,792	32,792	32,792	1.93
Montana	5,369		5,417	5,417	5,417	0.32
Nebraska	9,893		10,000	10,000	10,000	0.59
Nevada	14,554		14,787	14,787	14,787	0.87
New Hampshire	7,294		7,208	7,208	7,208	0.42
New Jersey	47,949		48,139	48,139	48,139	2.83
New Mexico	11,066		11,275	11,275	11,275	0.66
New York	107,604		106,103	106,103	106,103	6.24
North Carolina	51,655		52,210	52,210	52,210	3.07
North Dakota	3,562		3,683	3,683	3,683	0.22
Ohio	63,559		63,167	63,167	63,167	3.72
Oklahoma	20,303		20,540	20,540	20,540	1.21
Oregon	21,066		20,977	20,977	20,977	1.23
Pennsylvania	69,407		69,550	69,550	69,550	4.09
Rhode Island	5,799		5,763	5,763	5,763	0.34
South Carolina	25,116		25,326	25,326	25,326	1.49
South Dakota	4,473		4,458	4,458	4,458	0.26
Tennessee	34,670		34,747	34,747	34,747	2.04
Texas	136,462		137,682	137,682	137,682	8.10
Utah	15,333		15,133	15,133	15,133	0.89
Vermont	3,424		3,426	3,426	3,426	0.20
Virginia	43,405		43,809	43,809	43,809	2.58
Washington	36,696		36,819	36,819	36,819	2.17
West Virginia	10,020		10,146	10,146	10,146	0.60
Wisconsin	31,138		31,138	31,138	31,138	1.83
Wyoming	2,997		3,086	3,086	3,086	0.18
American Samoa	49		60	60	60	*
Guam	293		293	293	293	0.02
Northern Mariana Islands						
Puerto Rico	8,793		8,793	8,793	8,793	0.52
Freely Associated States						
Virgin Islands	293		293	293	293	0.02
Indian Tribes						
Undistributed						
Training and Technical Assistance						
Discretionary Funds						
Other						
<b>Total</b>	<b>1,699,939</b>		<b>1,699,942</b>	<b>1,699,942</b>	<b>1,699,942</b>	<b>1 100.00</b>

\* \$500 or less or 0.005 percent or less.

<sup>1</sup> Excludes undistributed obligations.



Department of Health and Human Services, HIV/AIDS Bureau

75-0350-0-1-550

**Table 18–27. RYAN WHITE HIV/AIDS TREATMENT MODERNIZATION ACT-PART B HIV CARE GRANTS (93.917)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	20,042	.....	.....	.....	.....	.....
Alaska .....	1,140	.....	.....	.....	.....	.....
Arizona .....	16,132	.....	.....	.....	.....	.....
Arkansas .....	8,373	.....	.....	.....	.....	.....
California .....	152,328	.....	.....	.....	.....	.....
Colorado .....	14,593	.....	.....	.....	.....	.....
Connecticut .....	14,719	.....	.....	.....	.....	.....
Delaware .....	5,795	.....	.....	.....	.....	.....
District of Columbia .....	21,409	.....	.....	.....	.....	.....
Florida .....	134,348	.....	.....	.....	.....	.....
Georgia .....	48,714	.....	.....	.....	.....	.....
Hawaii .....	3,828	.....	.....	.....	.....	.....
Idaho .....	1,791	.....	.....	.....	.....	.....
Illinois .....	42,807	.....	.....	.....	.....	.....
Indiana .....	11,899	.....	.....	.....	.....	.....
Iowa .....	3,662	.....	.....	.....	.....	.....
Kansas .....	3,684	.....	.....	.....	.....	.....
Kentucky .....	10,395	.....	.....	.....	.....	.....
Louisiana .....	26,388	.....	.....	.....	.....	.....
Maine .....	1,734	.....	.....	.....	.....	.....
Maryland .....	40,426	.....	.....	.....	.....	.....
Massachusetts .....	20,457	.....	.....	.....	.....	.....
Michigan .....	17,985	.....	.....	.....	.....	.....
Minnesota .....	7,784	.....	.....	.....	.....	.....
Mississippi .....	13,107	.....	.....	.....	.....	.....
Missouri .....	14,592	.....	.....	.....	.....	.....
Montana .....	1,208	.....	.....	.....	.....	.....
Nebraska .....	2,728	.....	.....	.....	.....	.....
Nevada .....	8,519	.....	.....	.....	.....	.....
New Hampshire .....	1,508	.....	.....	.....	.....	.....
New Jersey .....	47,751	.....	.....	.....	.....	.....
New Mexico .....	4,020	.....	.....	.....	.....	.....
New York .....	163,839	.....	.....	.....	.....	.....
North Carolina .....	38,229	.....	.....	.....	.....	.....
North Dakota .....	454	.....	.....	.....	.....	.....
Ohio .....	26,295	.....	.....	.....	.....	.....
Oklahoma .....	8,432	.....	.....	.....	.....	.....
Oregon .....	7,042	.....	.....	.....	.....	.....
Pennsylvania .....	43,068	.....	.....	.....	.....	.....
Rhode Island .....	4,417	.....	.....	.....	.....	.....
South Carolina .....	28,973	.....	.....	.....	.....	.....
South Dakota .....	884	.....	.....	.....	.....	.....
Tennessee .....	21,567	.....	.....	.....	.....	.....
Texas .....	86,643	.....	.....	.....	.....	.....
Utah .....	4,733	.....	.....	.....	.....	.....
Vermont .....	894	.....	.....	.....	.....	.....
Virginia .....	31,001	.....	.....	.....	.....	.....
Washington .....	14,678	.....	.....	.....	.....	.....
West Virginia .....	2,536	.....	.....	.....	.....	.....
Wisconsin .....	9,146	.....	.....	.....	.....	.....
Wyoming .....	871	.....	.....	.....	.....	.....
American Samoa .....	47	.....	.....	.....	.....	.....
Guam .....	287	.....	.....	.....	.....	.....
Northern Mariana Islands .....	52	.....	.....	.....	.....	.....
Puerto Rico .....	33,845	.....	.....	.....	.....	.....
Freely Associated States .....	53	.....	.....	.....	.....	.....
Virgin Islands .....	1,334	.....	.....	.....	.....	.....
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	<sup>1</sup> 1,298,703	1,298,703	<sup>2</sup> 1,362,603	.....
Marshall Islands .....	25	.....	.....	.....	.....	.....
Republic of Palau .....	50	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>1,253,261</b>	<b>.....</b>	<b>1,298,703</b>	<b>1,298,703</b>	<b>1,362,603</b>	<sup>3</sup> <b>100.00</b>

<sup>1</sup> FY 2012 data for each state is not available.<sup>2</sup> FY 2013 data for each state is not available.<sup>3</sup> Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs

86-0163-0-1-604

**Table 18–28. PUBLIC HOUSING OPERATING FUND (14.850)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	148,173	.....	126,973	126,973	145,725	3.22
Alaska .....	11,242	.....	9,634	9,634	11,057	0.24
Arizona .....	23,438	.....	20,084	20,084	23,050	0.51
Arkansas .....	36,537	.....	31,310	31,310	35,934	0.79
California .....	139,774	.....	119,775	119,775	137,464	3.04
Colorado .....	30,528	.....	26,160	26,160	30,023	0.66
Connecticut .....	69,047	.....	59,167	59,167	67,906	1.50
Delaware .....	12,859	.....	11,019	11,019	12,646	0.28
District of Columbia .....	49,983	.....	42,831	42,831	49,157	1.09
Florida .....	135,100	.....	115,770	115,770	132,868	2.94
Georgia .....	149,144	.....	127,805	127,805	146,680	3.24
Hawaii .....	23,067	.....	19,767	19,767	22,686	0.50
Idaho .....	1,468	.....	1,258	1,258	1,444	0.03
Illinois .....	274,975	.....	235,631	235,631	270,430	5.98
Indiana .....	47,817	.....	40,975	40,975	47,027	1.04
Iowa .....	6,439	.....	5,518	5,518	6,333	0.14
Kansas .....	20,264	.....	17,365	17,365	19,929	0.44
Kentucky .....	63,405	.....	54,332	54,332	62,356	1.38
Louisiana .....	66,470	.....	56,960	56,960	65,372	1.45
Maine .....	14,050	.....	12,039	12,039	13,817	0.31
Maryland .....	111,343	.....	95,412	95,412	109,503	2.42
Massachusetts .....	153,951	.....	131,924	131,924	151,407	3.35
Michigan .....	66,444	.....	56,937	56,937	65,346	1.44
Minnesota .....	52,268	.....	44,789	44,789	51,404	1.14
Mississippi .....	37,758	.....	32,356	32,356	37,134	0.82
Missouri .....	44,732	.....	38,332	38,332	43,993	0.97
Montana .....	5,803	.....	4,972	4,972	5,707	0.13
Nebraska .....	14,862	.....	12,736	12,736	14,617	0.32
Nevada .....	16,586	.....	14,212	14,212	16,311	0.36
New Hampshire .....	11,718	.....	10,042	10,042	11,525	0.25
New Jersey .....	169,545	.....	146,287	146,287	166,743	3.69
New Mexico .....	12,266	.....	10,511	10,511	12,063	0.27
New York .....	1,044,518	.....	899,066	899,066	1,027,254	22.71
North Carolina .....	140,647	.....	120,524	120,524	138,323	3.06
North Dakota .....	3,527	.....	3,022	3,022	3,468	0.08
Ohio .....	214,327	.....	182,660	182,660	210,784	4.66
Oklahoma .....	37,801	.....	32,392	32,392	37,176	0.82
Oregon .....	19,401	.....	16,625	16,625	19,081	0.42
Pennsylvania .....	298,832	.....	266,075	266,075	293,893	6.50
Rhode Island .....	36,081	.....	30,918	30,918	35,485	0.78
South Carolina .....	52,652	.....	45,119	45,119	51,782	1.14
South Dakota .....	2,958	.....	2,535	2,535	2,909	0.06
Tennessee .....	115,800	.....	99,246	99,246	113,903	2.52
Texas .....	185,945	.....	164,341	164,341	182,873	4.04
Utah .....	4,438	.....	3,803	3,803	4,364	0.10
Vermont .....	4,657	.....	3,991	3,991	4,580	0.10
Virginia .....	78,773	.....	67,508	67,508	77,472	1.71
Washington .....	44,792	.....	39,383	39,383	44,052	0.97
West Virginia .....	19,464	.....	16,679	16,679	19,143	0.42
Wisconsin .....	22,873	.....	19,600	19,600	22,495	0.50
Wyoming .....	1,902	.....	1,630	1,630	1,871	0.04
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	4,155	.....	3,561	3,561	4,087	0.09
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	225,121	.....	192,911	192,911	221,401	4.89
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	20,284	.....	17,382	17,382	19,949	0.44
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>4,600,004</b>	<b>.....</b>	<b>3,961,854</b>	<b>3,961,854</b>	<b>4,524,002</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs

86-0302-0-1-604

Table 18-29. SECTION 8 HOUSING CHOICE VOUCHERS (14.871)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	182,418	1,761	177,927	179,688	186,255	0.99
Alaska .....	35,266	340	34,398	34,738	36,008	0.19
Arizona .....	164,137	1,585	160,097	161,682	167,590	0.89
Arkansas .....	98,888	955	96,454	97,409	100,968	0.53
California .....	3,361,519	32,453	3,278,768	3,311,221	3,432,218	18.16
Colorado .....	234,400	2,263	228,630	230,893	239,330	1.27
Connecticut .....	373,378	3,605	364,187	367,792	381,231	2.02
Delaware .....	39,750	384	38,772	39,156	40,586	0.21
District of Columbia .....	183,750	1,774	179,227	181,001	187,615	0.99
Florida .....	855,255	8,257	834,201	842,458	873,243	4.62
Georgia .....	483,051	4,664	471,160	475,824	493,211	2.61
Hawaii .....	111,369	1,075	108,628	109,703	113,712	0.60
Idaho .....	39,319	380	38,351	38,731	40,146	0.21
Illinois .....	882,191	8,517	860,474	868,991	900,745	4.77
Indiana .....	218,312	2,108	212,938	215,046	222,904	1.18
Iowa .....	99,498	961	97,048	98,009	101,590	0.54
Kansas .....	63,535	613	61,971	62,584	64,871	0.34
Kentucky .....	190,777	1,842	186,081	187,923	194,790	1.03
Louisiana .....	345,823	3,339	337,310	340,649	353,096	1.87
Maine .....	85,964	830	83,848	84,678	87,772	0.46
Maryland .....	480,297	4,637	468,474	473,111	490,399	2.59
Massachusetts .....	856,744	8,271	835,654	843,925	874,763	4.63
Michigan .....	359,394	3,470	350,547	354,017	366,953	1.94
Minnesota .....	223,877	2,161	218,366	220,527	228,586	1.21
Mississippi .....	139,192	1,344	135,766	137,110	142,120	0.75
Missouri .....	243,886	2,355	237,882	240,237	249,015	1.32
Montana .....	31,236	302	30,467	30,769	31,893	0.17
Nebraska .....	65,354	631	63,745	64,376	66,728	0.35
Nevada .....	129,148	1,247	125,968	127,215	131,864	0.70
New Hampshire .....	84,741	818	82,655	83,473	86,523	0.46
New Jersey .....	675,341	6,520	658,716	665,236	689,544	3.65
New Mexico .....	74,157	716	72,332	73,048	75,717	0.40
New York .....	2,320,519	22,403	2,263,395	2,285,798	2,369,324	12.54
North Carolina .....	349,511	3,374	340,907	344,281	356,862	1.89
North Dakota .....	33,151	320	32,335	32,655	33,848	0.18
Ohio .....	577,688	5,577	563,467	569,044	589,838	3.12
Oklahoma .....	131,338	1,268	128,105	129,373	134,100	0.71
Oregon .....	215,668	2,082	210,359	212,441	220,204	1.17
Pennsylvania .....	584,426	5,642	570,040	575,682	596,718	3.16
Rhode Island .....	82,974	801	80,931	81,732	84,719	0.45
South Carolina .....	144,426	1,394	140,871	142,265	147,463	0.78
South Dakota .....	31,019	299	30,255	30,554	31,671	0.17
Tennessee .....	211,002	2,037	205,808	207,845	215,440	1.14
Texas .....	1,023,732	9,883	998,531	1,008,414	1,045,263	5.53
Utah .....	72,277	698	70,497	71,195	73,797	0.39
Vermont .....	47,792	461	46,615	47,076	48,797	0.26
Virginia .....	382,606	3,694	373,188	376,882	390,653	2.07
Washington .....	417,020	4,026	406,754	410,780	425,791	2.25
West Virginia .....	66,671	644	65,030	65,674	68,073	0.36
Wisconsin .....	160,191	1,547	156,248	157,795	163,561	0.87
Wyoming .....	12,977	125	12,657	12,782	13,250	0.07
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	35,047	338	34,184	34,522	35,784	0.19
Northern Mariana Islands .....	3,947	38	3,850	3,888	4,030	0.02
Puerto Rico .....	182,197	1,759	177,712	179,471	186,029	0.98
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	11,886	115	11,593	11,708	12,136	0.06
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	210,000	1 210,000	1 223,570	.....
<b>Total .....</b>	<b>18,510,032</b>	<b>178,703</b>	<b>18,264,374</b>	<b>18,443,077</b>	<b>19,122,907</b>	<b>2 100.00</b>

<sup>1</sup> Undistributed amounts include new vouchers (e.g., HUD-Veteran Affairs Supportive Housing vouchers) yet to be distributed and estimated set-aside for Rental Assistance Demonstration.

<sup>2</sup> Excludes undistributed obligations.

Department of Housing and Urban Development, Public and Indian Housing Programs

86-0304-0-1-604

**Table 18-30. PUBLIC HOUSING CAPITAL FUND (14.872)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	73,088	2,349	64,783	67,132	70,483	3.40
Alaska .....	3,304	106	2,929	3,035	3,186	0.15
Arizona .....	11,093	357	9,832	10,189	10,698	0.52
Arkansas .....	21,095	678	18,698	19,376	20,343	0.98
California .....	95,695	3,076	84,821	87,897	92,285	4.46
Colorado .....	4,077	131	3,614	3,745	3,932	0.19
Connecticut .....	25,376	816	22,492	23,308	24,472	1.18
Delaware .....	4,984	160	4,418	4,578	4,806	0.23
District of Columbia .....	16,482	530	14,609	15,139	15,895	0.77
Florida .....	69,609	2,238	61,699	63,937	67,128	3.24
Georgia .....	93,938	3,020	83,263	86,283	90,590	4.38
Hawaii .....	10,402	334	9,220	9,554	10,031	0.48
Idaho .....	769	25	682	707	742	0.04
Illinois .....	5,418	174	4,802	4,976	5,225	0.25
Indiana .....	10,963	352	9,717	10,069	10,572	0.51
Iowa .....	5,883	189	5,214	5,403	5,673	0.27
Kansas .....	29,239	940	25,916	26,856	28,197	1.36
Kentucky .....	38,555	1,239	34,174	35,413	37,181	1.80
Louisiana .....	51,205	1,646	45,386	47,032	49,380	2.39
Maine .....	127,404	4,095	112,926	117,021	155,864	7.53
Maryland .....	33,621	1,081	29,800	30,881	32,423	1.57
Massachusetts .....	64,967	2,088	57,584	59,672	62,652	3.03
Michigan .....	35,033	1,126	31,052	32,178	33,785	1.63
Minnesota .....	32,204	1,035	28,544	29,579	31,056	1.50
Mississippi .....	23,626	759	20,941	21,700	22,784	1.10
Missouri .....	30,060	966	26,644	27,610	28,989	1.40
Montana .....	5,961	192	5,284	5,476	5,749	0.28
Nebraska .....	11,587	372	10,270	10,642	11,174	0.54
Nevada .....	5,762	185	5,107	5,292	5,557	0.27
New Hampshire .....	5,061	163	4,486	4,649	4,881	0.24
New Jersey .....	73,033	2,348	64,734	67,082	68,430	3.31
New Mexico .....	6,192	199	5,488	5,687	5,971	0.29
New York .....	351,393	11,296	311,462	322,758	333,871	16.13
North Carolina .....	69,060	2,220	61,212	63,432	68,599	3.31
North Dakota .....	2,298	74	2,037	2,111	2,216	0.11
Ohio .....	83,311	2,678	73,844	76,522	79,342	3.83
Oklahoma .....	16,391	527	14,528	15,055	14,807	0.72
Oregon .....	9,045	291	8,017	8,308	8,723	0.42
Pennsylvania .....	135,797	4,365	120,366	124,731	135,958	6.57
Rhode Island .....	12,692	408	11,250	11,658	12,240	0.59
South Carolina .....	26,625	856	23,599	24,455	27,676	1.34
South Dakota .....	1,810	58	1,604	1,662	1,745	0.08
Tennessee .....	56,541	1,818	50,116	51,934	54,526	2.63
Texas .....	93,835	3,016	83,172	86,188	88,491	4.27
Utah .....	3,641	117	3,227	3,344	3,511	0.17
Vermont .....	3,161	102	2,802	2,904	3,048	0.15
Virginia .....	31,944	1,027	28,314	29,341	30,806	1.49
Washington .....	27,701	890	24,553	25,443	26,714	1.29
West Virginia .....	8,684	279	7,697	7,976	8,375	0.40
Wisconsin .....	16,941	545	15,016	15,561	15,337	0.74
Wyoming .....	907	29	804	833	875	0.04
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	1,318	42	1,168	1,210	1,271	0.06
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	130,178	4,185	115,385	119,570	125,539	6.06
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	6,424	207	5,694	5,901	6,195	0.30
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>2,115,383</b>	<b>67,999</b>	<b>1,874,996</b>	<b>1,942,995</b>	<b>2,069,999</b>	<b><sup>1</sup> 100.00</b>

\* \$500 or less or 0.005 percent or less.

<sup>1</sup> Excludes undistributed obligations.



Department of Housing and Urban Development, Community Planning and Development

86-0162-0-1-451

Table 18-31. COMMUNITY DEVELOPMENT BLOCK GRANT (14.218)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	46,381	2,711	39,782	42,493	39,571	1.30
Alaska	4,341	.....	3,875	3,875	3,854	0.13
Arizona	40,252	9,062	44,036	53,098	43,803	1.44
Arkansas	25,020	.....	22,332	22,332	22,214	0.73
California	420,767	100,358	370,760	471,118	368,795	12.16
Colorado	26,874	9,453	30,393	39,846	30,232	1.00
Connecticut	38,216	5,290	33,801	39,091	33,622	1.11
Delaware	6,490	.....	3,808	3,808	3,788	0.12
District of Columbia	19,636	16,329	14,584	30,913	14,507	0.48
Florida	198,527	94,545	128,559	223,104	127,878	4.22
Georgia	76,307	3,171	66,381	69,552	66,029	2.18
Hawaii	13,653	.....	12,190	12,190	12,125	0.40
Idaho	11,597	2,141	9,971	12,112	9,918	0.33
Illinois	179,590	27,370	139,758	167,128	139,017	4.58
Indiana	86,913	1,870	56,191	58,061	55,893	1.84
Iowa	129,303	.....	33,147	33,147	32,971	1.09
Kansas	25,768	2,257	22,607	24,864	22,487	0.74
Kentucky	54,884	.....	36,941	36,941	36,745	1.21
Louisiana	357,278	146,380	51,006	197,386	150,736	4.97
Maine	17,476	1,528	15,968	17,496	15,883	0.52
Maryland	65,213	13,035	44,107	57,142	43,873	1.45
Massachusetts	102,847	6,071	87,657	93,728	87,192	2.88
Michigan	119,008	47,941	105,676	153,617	105,116	3.47
Minnesota	51,372	517	46,330	46,847	46,084	1.52
Mississippi	37,868	2,686	28,631	31,317	28,479	0.94
Missouri	65,594	206	53,790	53,996	53,505	1.76
Montana	8,325	.....	7,430	7,430	7,391	0.24
Nebraska	17,197	.....	15,350	15,350	15,269	0.50
Nevada	4,547	13,810	16,394	30,204	16,307	0.54
New Hampshire	11,384	595	10,692	11,287	10,635	0.35
New Jersey	103,093	30,663	81,672	112,335	81,239	2.68
New Mexico	19,612	.....	17,090	17,090	16,999	0.56
New York	316,510	27,580	279,600	307,180	278,118	9.17
North Carolina	68,941	.....	58,273	58,273	57,964	1.91
North Dakota	5,739	.....	5,122	5,122	5,095	0.17
Ohio	122,698	26,539	130,120	156,659	129,430	4.27
Oklahoma	30,144	5,124	24,414	29,538	24,285	0.80
Oregon	33,412	.....	29,402	29,402	29,246	0.96
Pennsylvania	160,831	52,207	176,759	228,966	175,822	5.80
Rhode Island	27,412	1,219	13,956	15,175	13,882	0.46
South Carolina	35,877	425	31,438	31,863	31,271	1.03
South Dakota	7,269	.....	6,487	6,487	6,453	0.21
Tennessee	119,352	.....	40,486	40,486	40,271	1.33
Texas	283,048	121,775	206,520	328,295	205,425	6.77
Utah	20,495	673	16,661	17,334	16,573	0.55
Vermont	7,555	.....	6,742	6,742	6,706	0.22
Virginia	47,003	13,135	49,060	62,195	48,800	1.61
Washington	54,042	1,177	49,197	50,374	48,936	1.61
West Virginia	22,645	106	20,195	20,301	20,088	0.66
Wisconsin	55,264	28,026	53,352	81,378	53,069	1.75
Wyoming	3,827	.....	3,415	3,415	3,397	0.11
American Samoa	1,133	.....	1,143	1,143	1,137	0.04
Guam	3,050	3,086	3,076	6,162	3,060	0.10
Northern Mariana Islands	880	824	888	1,712	883	0.03
Puerto Rico	111,667	.....	88,982	88,982	88,510	2.92
Freely Associated States	.....	.....	.....	.....	.....	.....
Virgin Islands	1,878	1,873	1,893	3,766	1,883	0.06
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	<sup>1</sup> 499,233	<sup>1</sup> 118,018	<sup>1</sup> 460,000	578,018	<sup>1</sup> 195,000	.....
<b>Total</b>	<b>4,425,238</b>	<b>939,776</b>	<b>3,408,090</b>	<b>4,347,866</b>	<b>3,227,461</b>	<sup>2</sup> <b>100.00</b>

\* \$500 or less or 0.005 percent or less.

NOTE: Distributed amounts include CDBG formula grants and awarded CDBG disaster funding.

<sup>1</sup> Undistributed amounts include unallocated CDBG disaster funding, Indian CDBG, and other set-asides.<sup>2</sup> Excludes undistributed obligations.

Department of Labor, Employment and Training Administration

16-0179-0-1-603

**Table 18-32. UNEMPLOYMENT INSURANCE (17.225)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	37,165	.....	38,868	38,868	.....	.....
Alaska .....	25,560	.....	27,372	27,372	.....	.....
Arizona .....	46,914	.....	40,847	40,847	.....	.....
Arkansas .....	24,249	.....	26,283	26,283	.....	.....
California .....	458,777	.....	461,647	461,647	.....	.....
Colorado .....	45,665	.....	48,139	48,139	.....	.....
Connecticut .....	58,387	.....	60,819	60,819	.....	.....
Delaware .....	12,021	.....	12,149	12,149	.....	.....
District of Columbia .....	14,599	.....	12,749	12,749	.....	.....
Florida .....	105,827	.....	96,285	96,285	.....	.....
Georgia .....	70,758	.....	79,365	79,365	.....	.....
Hawaii .....	17,536	.....	18,143	18,143	.....	.....
Idaho .....	22,377	.....	22,039	22,039	.....	.....
Illinois .....	164,959	.....	182,054	182,054	.....	.....
Indiana .....	43,080	.....	53,180	53,180	.....	.....
Iowa .....	26,619	.....	29,165	29,165	.....	.....
Kansas .....	22,141	.....	22,437	22,437	.....	.....
Kentucky .....	31,910	.....	34,878	34,878	.....	.....
Louisiana .....	37,134	.....	34,615	34,615	.....	.....
Maine .....	18,199	.....	18,568	18,568	.....	.....
Maryland .....	60,778	.....	69,868	69,868	.....	.....
Massachusetts .....	72,404	.....	71,142	71,142	.....	.....
Michigan .....	133,420	.....	150,581	150,581	.....	.....
Minnesota .....	49,410	.....	49,878	49,878	.....	.....
Mississippi .....	27,683	.....	25,940	25,940	.....	.....
Missouri .....	45,453	.....	44,027	44,027	.....	.....
Montana .....	10,734	.....	10,288	10,288	.....	.....
Nebraska .....	14,960	.....	17,704	17,704	.....	.....
Nevada .....	31,965	.....	37,146	37,146	.....	.....
New Hampshire .....	14,938	.....	16,907	16,907	.....	.....
New Jersey .....	121,470	.....	126,158	126,158	.....	.....
New Mexico .....	20,250	.....	16,722	16,722	.....	.....
New York .....	208,559	.....	212,313	212,313	.....	.....
North Carolina .....	66,979	.....	66,831	66,831	.....	.....
North Dakota .....	11,299	.....	8,560	8,560	.....	.....
Ohio .....	102,642	.....	111,447	111,447	.....	.....
Oklahoma .....	27,947	.....	29,196	29,196	.....	.....
Oregon .....	57,350	.....	56,191	56,191	.....	.....
Pennsylvania .....	153,016	.....	159,620	159,620	.....	.....
Rhode Island .....	16,708	.....	15,864	15,864	.....	.....
South Carolina .....	32,906	.....	35,450	35,450	.....	.....
South Dakota .....	7,477	.....	6,813	6,813	.....	.....
Tennessee .....	91,496	.....	41,622	41,622	.....	.....
Texas .....	150,547	.....	157,894	157,894	.....	.....
Utah .....	29,080	.....	28,103	28,103	.....	.....
Vermont .....	14,218	.....	9,259	9,259	.....	.....
Virginia .....	47,706	.....	51,334	51,334	.....	.....
Washington .....	99,123	.....	114,315	114,315	.....	.....
West Virginia .....	16,595	.....	17,008	17,008	.....	.....
Wisconsin .....	72,654	.....	75,758	75,758	.....	.....
Wyoming .....	68,997	.....	9,887	9,887	.....	.....
American Samoa .....	.....	.....	.....	.....	.....	.....
Guam .....	.....	.....	.....	.....	.....	.....
Northern Mariana Islands .....	.....	.....	.....	.....	.....	.....
Puerto Rico .....	22,372	.....	21,516	21,516	.....	.....
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	1,853	.....	2,071	2,071	.....	.....
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	3,027,797	.....
Dept of Health and Human Services .....	2,380	.....	2,236	2,236	.....	.....
<b>Total</b> .....	<b>3,189,246</b>	<b>.....</b>	<b>3,189,251</b>	<b>3,189,251</b>	<b>3,027,797</b>	<b>.....</b>

Department of Transportation, Federal Aviation Administration

69-8106-0-7-402

69-0160-4-1-400

**Table 18-33. AIRPORT IMPROVEMENT PROGRAM (20.106)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	64,490	.....	97,241	97,241	42,585	1.87
Alaska .....	229,180	.....	345,567	345,567	151,335	6.65
Arizona .....	85,853	.....	129,453	129,453	56,692	2.49
Arkansas .....	44,059	.....	66,434	66,434	29,094	1.28
California .....	238,587	.....	359,752	359,752	157,546	6.92
Colorado .....	92,595	.....	139,620	139,620	61,144	2.69
Connecticut .....	16,190	.....	24,412	24,412	10,691	0.47
Delaware .....	1,874	.....	2,826	2,826	1,237	0.05
District of Columbia .....	17,371	.....	26,192	26,192	11,471	0.50
Florida .....	162,574	.....	245,136	245,136	107,353	4.72
Georgia .....	81,281	.....	122,559	122,559	53,673	2.36
Hawaii .....	33,035	.....	49,812	49,812	21,814	0.96
Idaho .....	14,311	.....	21,579	21,579	9,450	0.42
Illinois .....	172,667	.....	260,355	260,355	114,018	5.01
Indiana .....	69,258	.....	104,430	104,430	45,733	2.01
Iowa .....	41,241	.....	62,186	62,186	27,233	1.20
Kansas .....	32,051	.....	48,328	48,328	21,165	0.93
Kentucky .....	57,767	.....	87,103	87,103	38,145	1.68
Louisiana .....	61,813	.....	93,204	93,204	40,817	1.79
Maine .....	30,425	.....	45,877	45,877	20,091	0.88
Maryland .....	18,445	.....	27,812	27,812	12,180	0.53
Massachusetts .....	80,988	.....	122,118	122,118	53,479	2.35
Michigan .....	66,808	.....	100,736	100,736	44,115	1.94
Minnesota .....	52,217	.....	78,735	78,735	34,481	1.51
Mississippi .....	49,549	.....	74,712	74,712	32,719	1.44
Missouri .....	63,967	.....	96,452	96,452	42,239	1.86
Montana .....	45,644	.....	68,824	68,824	30,140	1.32
Nebraska .....	37,554	.....	56,625	56,625	24,798	1.09
Nevada .....	55,230	.....	83,278	83,278	36,470	1.60
New Hampshire .....	30,051	.....	45,312	45,312	19,844	0.87
New Jersey .....	68,530	.....	103,332	103,332	45,252	1.99
New Mexico .....	29,866	.....	45,034	45,034	19,722	0.87
New York .....	131,370	.....	198,086	198,086	86,748	3.81
North Carolina .....	85,081	.....	128,289	128,289	56,182	2.47
North Dakota .....	31,457	.....	47,432	47,432	20,772	0.91
Ohio .....	85,283	.....	128,594	128,594	56,316	2.47
Oklahoma .....	39,967	.....	60,264	60,264	26,392	1.16
Oregon .....	62,546	.....	94,310	94,310	41,301	1.81
Pennsylvania .....	73,879	.....	111,397	111,397	48,785	2.14
Rhode Island .....	5,913	.....	8,916	8,916	3,904	0.17
South Carolina .....	46,929	.....	70,762	70,762	30,989	1.36
South Dakota .....	38,454	.....	57,982	57,982	25,392	1.12
Tennessee .....	73,361	.....	110,618	110,618	48,443	2.13
Texas .....	237,804	.....	358,571	358,571	157,030	6.90
Utah .....	63,894	.....	96,342	96,342	42,191	1.85
Vermont .....	9,046	.....	13,640	13,640	5,973	0.26
Virginia .....	45,583	.....	68,732	68,732	30,100	1.32
Washington .....	94,926	.....	143,133	143,133	62,683	2.75
West Virginia .....	25,856	.....	38,987	38,987	17,074	0.75
Wisconsin .....	54,672	.....	82,437	82,437	36,102	1.59
Wyoming .....	24,750	.....	37,319	37,319	16,343	0.72
American Samoa .....	1,900	.....	2,865	2,865	1,255	0.06
Guam .....	5,680	.....	8,565	8,565	3,751	0.16
Northern Mariana Islands .....	10,781	.....	16,257	16,257	7,119	0.31
Puerto Rico .....	19,888	.....	29,987	29,987	13,132	0.58
Freely Associated States .....	30,310	.....	45,703	45,703	20,015	0.88
Virgin Islands .....	3,002	.....	4,526	4,526	1,982	0.09
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>3,447,803</b>	<b>.....</b>	<b>5,198,750</b>	<b>5,198,750</b>	<b>2,276,700</b>	<b><sup>1</sup> 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Department of Transportation, Federal Highway Administration

69-8083-0-7-401

Table 18-34. HIGHWAY PLANNING AND CONSTRUCTION (20.205)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	854,635		698,064	698,064	723,693	2.00
Alaska	594,781		421,295	421,295	330,377	0.91
Arizona	763,340		674,516	674,516	710,073	1.96
Arkansas	617,330		466,584	466,584	457,374	1.26
California	3,387,033		3,302,820	3,302,820	3,307,300	9.14
Colorado	591,071		491,462	491,462	472,750	1.31
Connecticut	478,608		456,212	456,212	491,120	1.36
Delaware	182,449		152,048	152,048	143,549	0.40
District of Columbia	161,966		146,278	146,278	142,931	0.40
Florida	1,906,838		1,748,260	1,748,260	1,828,456	5.05
Georgia	1,325,576		1,189,847	1,189,847	1,296,584	3.58
Hawaii	144,428		155,166	155,166	154,044	0.43
Idaho	283,842		263,537	263,537	268,270	0.74
Illinois	1,572,259		1,307,088	1,307,088	1,198,439	3.31
Indiana	1,027,213		878,904	878,904	916,655	2.53
Iowa	507,068		438,807	438,807	397,271	1.10
Kansas	365,835		346,646	346,646	371,197	1.03
Kentucky	826,806		611,601	611,601	620,715	1.72
Louisiana	674,992		624,146	624,146	576,385	1.59
Maine	191,557		169,174	169,174	159,542	0.44
Maryland	548,939		541,043	541,043	570,826	1.58
Massachusetts	631,424		557,234	557,234	603,244	1.67
Michigan	1,131,485		968,324	968,324	1,073,815	2.97
Minnesota	677,241		580,357	580,357	564,903	1.56
Mississippi	485,463		435,094	435,094	430,802	1.19
Missouri	962,259		831,235	831,235	850,090	2.35
Montana	426,486		355,257	355,257	346,710	0.96
Nebraska	314,194		265,401	265,401	264,586	0.73
Nevada	341,691		334,009	334,009	252,465	0.70
New Hampshire	192,944		151,855	151,855	166,695	0.46
New Jersey	853,247		914,451	914,451	952,243	2.63
New Mexico	372,811		329,911	329,911	346,787	0.96
New York	1,672,001		1,541,845	1,541,845	1,650,875	4.56
North Carolina	1,082,129		957,048	957,048	1,027,174	2.84
North Dakota	322,784		227,967	227,967	224,416	0.62
Ohio	1,274,413		1,210,840	1,210,840	1,295,736	3.58
Oklahoma	736,555		582,952	582,952	554,381	1.53
Oregon	480,412		449,036	449,036	410,482	1.13
Pennsylvania	1,455,213		1,507,976	1,507,976	1,645,782	4.55
Rhode Island	292,137		197,442	197,442	179,958	0.50
South Carolina	706,777		578,390	578,390	596,028	1.65
South Dakota	330,645		253,335	253,335	241,664	0.67
Tennessee	917,900		761,406	761,406	797,074	2.20
Texas	2,882,935		2,909,878	2,909,878	3,050,880	8.43
Utah	394,970		296,272	296,272	264,564	0.73
Vermont	233,182		182,537	182,537	151,347	0.42
Virginia	1,025,971		919,013	919,013	965,711	2.67
Washington	752,985		606,800	606,800	603,390	1.67
West Virginia	471,284		396,179	396,179	389,681	1.08
Wisconsin	741,853		669,436	669,436	706,703	1.95
Wyoming	251,814		224,063	224,063	246,405	0.68
American Samoa	21,111		16,227	16,227	13,767	0.04
Guam	28,739		22,091	22,091	18,742	0.05
Northern Mariana Islands	7,656		5,885	5,885	4,993	0.01
Puerto Rico	142,291		122,216	122,216	142,454	0.39
Freely Associated States						
Virgin Islands	19,040		14,635	14,635	12,417	0.03
Indian Tribes						
Undistributed			<sup>1</sup> 4,422,487	4,422,487	<sup>1</sup> 6,004,485	
Port Authority of New York and New Jersey	80,714					
<b>Total</b>	<b>39,721,322</b>		<b>39,882,582</b>	<b>39,882,582</b>	<b>42,189,000</b>	<sup>2</sup> 100.00

NOTE: This table also includes Budget account number 69-0504-0-1-401.

NOTE: The FY 2012 and FY 2013 columns are estimated distributions of Federal-aid highways obligation limitation plus exempt contract authority.

NOTE: The estimated FY 2013 obligation limitation distribution is calculated based on average annual apportionment shares under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and does not reflect any reauthorization proposal on apportionment formulas.

<sup>1</sup> This amount includes limitation/exempt funding for allocated programs, which has not been identified as being provided to a specific State at this time.<sup>2</sup> Excludes undistributed obligations.



Department of Transportation, Federal Transit Administration

69-8350-0-7-401

Table 18-35. TRANSIT FORMULA GRANTS PROGRAMS (20.507)

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama	40,027	38,187	27,197	65,384	74,365	0.78
Alaska	76,774	6,352	38,950	45,302	39,410	0.41
Arizona	194,032	53,398	65,280	118,678	125,390	1.32
Arkansas	24,792	1,381	22,337	23,718	19,462	0.20
California	1,358,588	540,712	692,873	1,233,585	1,294,725	13.62
Colorado	171,382	79,330	91,737	171,067	182,164	1.92
Connecticut	183,045	182,587	110,198	292,785	339,983	3.58
Delaware	18,408	16,806	15,162	31,968	35,236	0.37
District of Columbia	316,971	71,205	178,436	249,641	238,988	2.51
Florida	247,448	202,759	235,802	438,561	466,639	4.91
Georgia	135,769	120,163	126,520	246,683	266,161	2.80
Hawaii	39,369	57,811	39,139	96,950	110,982	1.17
Idaho	11,758	7,036	23,610	30,646	28,310	0.30
Illinois	504,962	72,901	337,775	410,676	366,499	3.86
Indiana	81,424	24,680	70,528	95,208	89,653	0.94
Iowa	60,341	6,237	31,482	37,719	33,386	0.35
Kansas	26,591	14,436	19,108	33,544	35,045	0.37
Kentucky	42,024	20,273	31,587	51,860	52,949	0.56
Louisiana	60,392	6,465	41,770	48,235	41,783	0.44
Maine	16,742	5,267	9,697	14,964	15,000	0.16
Maryland	103,031	75,476	134,754	210,230	210,604	2.22
Massachusetts	316,176	291,628	135,525	427,153	511,222	5.38
Michigan	112,430	37,232	100,866	138,098	130,905	1.38
Minnesota	165,428	32,286	90,377	122,663	115,801	1.22
Mississippi	19,370	16,706	15,044	31,750	35,005	0.37
Missouri	103,586	31,494	78,280	109,774	105,199	1.11
Montana	15,991	2,611	6,262	8,873	8,551	0.09
Nebraska	22,340	15,293	18,634	33,927	35,863	0.38
Nevada	55,710	10,339	30,916	41,255	38,634	0.41
New Hampshire	12,328	7,508	8,241	15,749	16,894	0.18
New Jersey	559,478	98,084	152,864	250,948	256,208	2.70
New Mexico	34,808	17,427	21,347	38,774	40,956	0.43
New York	1,319,813	929,334	804,490	1,733,824	1,921,712	20.22
North Carolina	126,512	68,610	80,923	149,533	158,792	1.67
North Dakota	15,296	3,773	7,956	11,729	11,486	0.12
Ohio	260,754	55,661	121,012	176,673	172,307	1.81
Oklahoma	47,707	3,296	24,045	27,341	23,462	0.25
Oregon	125,989	20,480	51,182	71,662	68,628	0.72
Pennsylvania	414,260	68,894	274,357	343,251	311,124	3.27
Rhode Island	44,085	24,683	20,880	45,563	50,660	0.53
South Carolina	32,671	25,511	28,408	53,919	57,722	0.61
South Dakota	9,376	1,601	6,944	8,545	7,677	0.08
Tennessee	76,026	19,259	57,662	76,921	72,023	0.76
Texas	451,018	238,793	280,094	518,887	551,444	5.80
Utah	264,512	12,508	69,578	82,086	72,013	0.76
Vermont	31,059	2,720	3,175	5,895	6,269	0.07
Virginia	136,378	112,232	90,003	202,235	226,469	2.38
Washington	354,169	55,233	161,835	217,068	203,780	2.14
West Virginia	21,181	8,636	13,830	22,466	22,850	0.24
Wisconsin	81,368	12,638	66,158	78,796	69,506	0.73
Wyoming	8,621	840	5,204	6,044	5,254	0.06
American Samoa	1,062	.....	223	223	175	*
Guam	992	.....	1,116	1,116	877	0.01
Northern Mariana Islands	933	.....	627	627	493	0.01
Puerto Rico	37,311	69,471	36,331	105,802	124,961	1.31
Freely Associated States	.....	1,378	.....	1,378	1,913	0.02
Virgin Islands	.....	.....	.....	.....	.....	.....
Indian Tribes	.....	.....	.....	.....	.....	.....
Undistributed	<sup>1</sup> 54,018	<sup>2</sup> 68,658	<sup>3</sup> 47,285	115,943	<sup>4</sup> 120,631	.....
<b>Total</b>	<b>9,046,626</b>	<b>3,968,279</b>	<b>5,255,616</b>	<b>9,223,895</b>	<b>9,624,200</b>	<b><sup>5</sup> 100.00</b>

\* \$500 or less or 0.005 percent or less.

NOTE: In addition to CFDA program number 20.207, this table also reflects obligations from CFDA program numbers 20.500, 20.505, 20.509, 20.513 and 20.521.

NOTE: The FY 2012 and 2013 columns are estimated distributions of transit obligation limitation.

NOTE: The FY 2013 obligation limitation distribution is calculated based on an average annual apportionment shares under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and does not reflect any reauthorization proposal on apportionment formulas.

<sup>1</sup> FY 2011 Undistributed is the Oversight takedown.<sup>2</sup> FY 2012 previous authority Undistributed line includes the Oversight takedown of \$35,782 and a undistributed amount of \$32,876.<sup>3</sup> FY 2012 new authority Undistributed line is the Oversight takedown.<sup>4</sup> FY 2013 Undistributed includes the Oversight takedown of \$75,000 and a undistributed amount of \$45,631.<sup>5</sup> Excludes undistributed obligations.

Environmental Protection Agency, Office of Water

68-0103-0-1-304

**Table 18-36. CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUND (66.458)**

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	167	16,101	31	16,132	12,876	1.10
Alaska .....	8,927	.....	8,601	8,601	6,892	0.59
Arizona .....	16,182	.....	9,707	9,707	7,778	0.66
Arkansas .....	9,757	.....	9,401	9,401	7,533	0.64
California .....	110,412	.....	102,399	102,399	82,356	7.01
Colorado .....	12,509	.....	11,496	11,496	9,211	0.78
Connecticut .....	25,150	.....	17,606	17,606	14,107	1.20
Delaware .....	7,340	.....	7,055	7,055	5,653	0.48
District of Columbia .....	24,448	.....	7,055	7,055	5,653	0.48
Florida .....	50,440	.....	48,511	48,511	38,869	3.31
Georgia .....	25,252	.....	24,299	24,299	19,469	1.66
Hawaii .....	27,492	.....	11,131	11,131	8,918	0.76
Idaho .....	7,322	21	7,034	7,055	5,653	0.48
Illinois .....	66,784	658	63,954	64,612	52,079	4.43
Indiana .....	36,288	.....	34,635	34,635	27,751	2.36
Iowa .....	27,756	19,489	38	19,527	15,585	1.33
Kansas .....	31,891	.....	12,972	12,972	10,394	0.88
Kentucky .....	44,916	.....	18,291	18,291	14,656	1.25
Louisiana .....	22,562	15,830	31	15,861	12,659	1.08
Maine .....	11,547	.....	11,125	11,125	8,914	0.76
Maryland .....	36,075	.....	34,759	34,759	27,850	2.37
Massachusetts .....	50,642	.....	48,794	48,794	39,096	3.33
Michigan .....	151,743	.....	61,794	61,794	49,513	4.21
Minnesota .....	27,415	64	26,350	26,414	21,165	1.80
Mississippi .....	13,438	.....	12,948	12,948	10,375	0.88
Missouri .....	56,483	40,322	482	40,804	31,922	2.72
Montana .....	10,322	.....	7,055	7,055	5,653	0.48
Nebraska .....	7,629	.....	7,351	7,351	5,890	0.50
Nevada .....	7,322	.....	7,055	7,055	5,653	0.48
New Hampshire .....	35,267	.....	14,362	14,362	11,507	0.98
New Jersey .....	60,342	595	58,133	58,728	47,056	4.00
New Mexico .....	13,811	5,626	1,429	7,055	5,653	0.48
New York .....	168,657	.....	158,242	158,242	127,099	10.82
North Carolina .....	671	25,747	190	25,937	20,782	1.77
North Dakota .....	10,103	7,042	14	7,056	5,653	0.48
Ohio .....	199,830	.....	80,520	80,520	64,825	5.52
Oklahoma .....	14,332	.....	11,611	11,611	9,303	0.79
Oregon .....	16,850	.....	16,235	16,235	13,008	1.11
Pennsylvania .....	59,159	.....	56,927	56,927	45,613	3.88
Rhode Island .....	10,015	.....	9,650	9,650	7,732	0.66
South Carolina .....	21,046	14,751	29	14,780	11,797	1.00
South Dakota .....	7,322	.....	7,055	7,055	5,653	0.48
Tennessee .....	21,668	.....	20,877	20,877	16,728	1.42
Texas .....	68,175	.....	65,301	65,301	52,631	4.48
Utah .....	7,859	.....	7,572	7,572	6,067	0.52
Vermont .....	7,322	.....	7,055	7,055	5,653	0.48
Virginia .....	30,584	.....	29,412	29,412	23,566	2.01
Washington .....	25,939	.....	24,992	24,992	20,025	1.70
West Virginia .....	23,658	.....	22,403	22,403	17,951	1.53
Wisconsin .....	55,486	38,930	77	39,007	31,131	2.65
Wyoming .....	7,322	.....	7,055	7,055	5,653	0.48
American Samoa .....	8,065	.....	7,786	7,786	6,238	0.53
Guam .....	7,317	5,122	512	5,634	4,514	0.38
Northern Mariana Islands .....	3,774	.....	3,619	3,619	2,899	0.25
Puerto Rico .....	27,958	18,971	227	19,198	15,019	1.28
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	6,606	4,565	49	4,614	3,621	0.31
Indian Tribes .....	16,556	17,652	11,677	29,329	23,500	2.00
Undistributed .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>1,863,904</b>	<b>231,486</b>	<b>1,234,970</b>	<b>1,466,456</b>	<b>1,175,000</b>	<b>1 100.00</b>

<sup>1</sup> Excludes undistributed obligations.

Environmental Protection Agency, Office of Water

68-0103-0-1-304

**Table 18–37. CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUND (66.468)**  
(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	.....	11,157	33	11,190	10,300	1.21
Alaska .....	9,418	2,355	6,621	8,976	8,310	0.98
Arizona .....	21,970	.....	18,025	18,025	16,689	1.97
Arkansas .....	20,539	13,242	340	13,582	12,575	1.48
California .....	87,587	773	82,239	83,012	77,739	9.17
Colorado .....	16,439	627	15,292	15,919	14,739	1.74
Connecticut .....	13,573	8,747	229	8,976	8,310	0.98
Delaware .....	22,841	127	8,848	8,976	8,310	0.98
District of Columbia .....	18,235	743	8,233	8,976	8,310	0.98
Florida .....	75,067	.....	28,361	28,361	27,133	3.20
Georgia .....	.....	24,059	2,852	26,911	19,636	2.32
Hawaii .....	22,841	127	8,848	8,976	8,310	0.98
Idaho .....	9,418	677	8,299	8,976	8,310	0.98
Illinois .....	35,644	453	32,481	32,934	31,366	3.70
Indiana .....	15,709	370	14,600	14,970	13,860	1.63
Iowa .....	23,169	14,940	382	15,321	14,185	1.67
Kansas .....	28,127	.....	10,981	10,981	10,167	1.20
Kentucky .....	32,971	189	12,768	12,956	11,996	1.41
Louisiana .....	7,695	16,817	145	16,961	15,704	1.85
Maine .....	9,268	486	8,489	8,976	8,310	0.98
Maryland .....	20,066	609	13,316	13,926	12,893	1.52
Massachusetts .....	17,278	829	15,904	16,732	15,492	1.83
Michigan .....	28,703	308	26,010	26,319	25,242	2.98
Minnesota .....	.....	14,969	93	15,062	13,945	1.64
Mississippi .....	.....	9,519	178	9,697	8,648	1.02
Missouri .....	26,234	16,918	431	17,348	16,062	1.89
Montana .....	9,268	7,034	1,942	8,976	8,310	0.98
Nebraska .....	9,418	265	8,711	8,976	8,310	0.98
Nevada .....	9,268	405	8,571	8,976	8,310	0.98
New Hampshire .....	22,841	127	8,848	8,976	8,310	0.98
New Jersey .....	20,120	265	17,965	18,230	17,752	2.09
New Mexico .....	18,560	4,109	4,867	8,976	8,310	0.98
New York .....	62,099	465	57,728	58,193	54,753	6.46
North Carolina .....	35,593	22,957	580	23,537	21,792	2.57
North Dakota .....	13,573	8,747	229	8,976	8,310	0.98
Ohio .....	89,194	.....	27,895	27,895	26,701	3.15
Oklahoma .....	11,571	386	9,822	10,208	10,325	1.22
Oregon .....	9,418	755	8,221	8,976	8,310	0.98
Pennsylvania .....	27,154	674	24,678	25,352	24,347	2.87
Rhode Island .....	13,573	8,747	229	8,976	8,310	0.98
South Carolina .....	13,573	8,747	229	8,976	8,310	0.98
South Dakota .....	9,268	405	8,571	8,976	8,310	0.98
Tennessee .....	10,300	436	9,539	9,975	9,235	1.09
Texas .....	.....	56,727	311	57,038	52,810	6.23
Utah .....	9,268	405	8,571	8,976	8,310	0.98
Vermont .....	13,573	8,749	226	8,976	8,310	0.98
Virginia .....	15,711	605	14,610	15,215	14,087	1.66
Washington .....	24,044	496	21,474	21,970	21,215	2.50
West Virginia .....	9,597	518	8,458	8,976	8,310	0.98
Wisconsin .....	23,399	17,131	1,658	18,789	14,327	1.69
Wyoming .....	10,421	405	8,571	8,976	8,310	0.98
American Samoa .....	1,404	228	1,132	1,360	1,259	0.15
Guam .....	7,175	737	2,661	3,398	3,146	0.37
Northern Mariana Islands .....	4,251	15	4,051	4,066	3,764	0.44
Puerto Rico .....	13,573	8,747	229	8,976	8,310	0.98
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	7,851	3,739	901	4,640	4,296	0.51
Indian Tribes .....	13,980	7,760	10,598	18,358	17,000	2.00
Undistributed <sup>1</sup> .....	924	1,001	999	2,000	2,000	.....
<b>Total .....</b>	<b>1,102,752</b>	<b>310,824</b>	<b>607,069</b>	<b>917,893</b>	<b>850,000</b>	<b><sup>2</sup>100.00</b>

<sup>1</sup> Undistributed includes all funds, FY 2011-2013, for the Unregulated Contaminant Monitoring Rule.<sup>2</sup> Excludes undistributed obligations.

Federal Communications Commission

27-5183-0-2-376

Table 18-38. UNIVERSAL SERVICE FUND E-RATE

(Obligations in thousands of dollars)

State or Territory	FY 2011 Actual	Estimated FY 2012 obligations from:			FY 2013 (estimated)	FY 2013 Percentage of distributed total
		Previous authority	New authority	Total		
Alabama .....	44,059	.....	45,499	45,499	42,203	2.34
Alaska .....	22,913	.....	23,662	23,662	21,948	1.22
Arizona .....	50,624	.....	52,278	52,278	48,491	2.69
Arkansas .....	16,501	.....	17,040	17,040	15,806	0.88
California .....	270,798	.....	279,646	279,646	259,388	14.36
Colorado .....	24,069	.....	24,856	24,856	23,055	1.28
Connecticut .....	17,291	.....	17,856	17,856	16,562	0.92
Delaware .....	2,065	.....	2,132	2,132	1,978	0.11
District of Columbia .....	5,913	.....	6,106	6,106	5,664	0.31
Florida .....	69,038	.....	71,294	71,294	66,130	3.66
Georgia .....	62,345	.....	64,382	64,382	59,719	3.31
Hawaii .....	2,892	.....	2,986	2,986	2,770	0.15
Idaho .....	6,993	.....	7,222	7,222	6,699	0.37
Illinois .....	68,159	.....	70,386	70,386	65,288	3.62
Indiana .....	29,998	.....	30,978	30,978	28,734	1.59
Iowa .....	10,465	.....	10,807	10,807	10,024	0.56
Kansas .....	12,605	.....	13,016	13,016	12,073	0.67
Kentucky .....	34,332	.....	35,454	35,454	32,886	1.82
Louisiana .....	45,311	.....	46,792	46,792	43,402	2.40
Maine .....	7,135	.....	7,368	7,368	6,834	0.38
Maryland .....	15,240	.....	15,737	15,737	14,597	0.81
Massachusetts .....	24,501	.....	25,302	25,302	23,469	1.30
Michigan .....	35,145	.....	36,293	36,293	33,664	1.86
Minnesota .....	17,946	.....	18,532	18,532	17,190	0.95
Mississippi .....	20,439	.....	21,107	21,107	19,578	1.08
Missouri .....	33,637	.....	34,736	34,736	32,219	1.78
Montana .....	3,126	.....	3,228	3,228	2,994	0.17
Nebraska .....	8,718	.....	9,003	9,003	8,351	0.46
Nevada .....	5,071	.....	5,237	5,237	4,857	0.27
New Hampshire .....	2,334	.....	2,410	2,410	2,236	0.12
New Jersey .....	49,168	.....	50,775	50,775	47,097	2.61
New Mexico .....	28,316	.....	29,241	29,241	27,123	1.50
New York .....	150,126	.....	155,031	155,031	143,801	7.96
North Carolina .....	57,045	.....	58,909	58,909	54,642	3.03
North Dakota .....	3,391	.....	3,502	3,502	3,248	0.18
Ohio .....	59,669	.....	61,618	61,618	57,155	3.17
Oklahoma .....	50,798	.....	52,458	52,458	48,658	2.69
Oregon .....	12,582	.....	12,993	12,993	12,051	0.67
Pennsylvania .....	57,334	.....	59,208	59,208	54,919	3.04
Rhode Island .....	7,685	.....	7,936	7,936	7,361	0.41
South Carolina .....	43,585	.....	45,009	45,009	41,748	2.31
South Dakota .....	3,381	.....	3,492	3,492	3,239	0.18
Tennessee .....	44,819	.....	46,284	46,284	42,931	2.38
Texas .....	207,953	.....	214,748	214,748	199,191	11.03
Utah .....	14,487	.....	14,960	14,960	13,876	0.77
Vermont .....	1,431	.....	1,478	1,478	1,371	0.08
Virginia .....	32,917	.....	33,993	33,993	31,530	1.75
Washington .....	25,640	.....	26,477	26,477	24,559	1.36
West Virginia .....	12,098	.....	12,493	12,493	11,588	0.64
Wisconsin .....	24,499	.....	25,299	25,299	23,467	1.30
Wyoming .....	4,880	.....	5,040	5,040	4,675	0.26
American Samoa .....	3,641	.....	3,760	3,760	3,487	0.19
Guam .....	142	.....	147	147	136	0.01
Northern Mariana Islands .....	646	.....	667	667	619	0.03
Puerto Rico .....	11,419	.....	11,792	11,792	10,938	0.61
Freely Associated States .....	.....	.....	.....	.....	.....	.....
Virgin Islands .....	7,829	.....	8,085	8,085	7,499	0.42
Indian Tribes .....	.....	.....	.....	.....	.....	.....
Undistributed .....	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>1,885,144</b>	<b>.....</b>	<b>1,946,740</b>	<b>1,946,740</b>	<b>1,805,718</b>	<b>1 100.00</b>

<sup>1</sup> Excludes undistributed obligations.





## 19. STRENGTHENING FEDERAL STATISTICS

Federal statistical programs produce key information to illuminate public and private decisions on a range of topics, including the economy, the population, agriculture, crime, education, energy, the environment, health, science, and transportation. The share of budget resources spent on supporting Federal statistics is relatively modest—about 0.04 percent of GDP in non-decennial census years and roughly double that in decennial census years—but that funding is leveraged to inform crucial decisions in a wide variety of spheres. The ability of governments, businesses, and the general public to make appropriate decisions about budgets, employment, investments, taxes, and a host of other important matters depends critically on the ready availability of relevant, accurate, and timely Federal statistics.

The Federal statistical community remains alert for opportunities to improve these measures of our Nation's performance, which is critical to fostering long-term global competitiveness. For example, during 2011, Federal statistical agencies: (i) developed new tools to increase the transparency of information on college costs for parents, students, and policy makers (National Center for Education Statistics); (ii) expanded upon FBI data to provide the first publicly available national arrest estimates broken down by sex, age group, and race (Bureau of Justice Statistics); (iii) initiated collection of data on the number of "green jobs" by industry and State (Bureau of Labor Statistics); (iv) continued the timely release of major 2010 Census products and expanded the American Community Survey sample size to increase the accuracy of this fundamental data source (Census Bureau); (v) published the first estimates of data on veterans and military service members pursuing undergraduate or graduate studies (National Center for Education Statistics); (vi) published an Internet-based mapping tool that pinpoints the location of "food deserts" (i.e., low-income communities that lack ready access to healthy food) to identify new opportunities for business and employment and expand the availability of nutritious food (Economic Research Service); (vii) completed a new Cropland Data Layer for the 2010 crop year with higher resolution that improves the accuracy of cropland classification and the precision of the acreage estimates generated (National Agricultural Statistics Service); (viii) developed and released some of the first official estimates of gross domestic product for American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands (Bureau of Economic Analysis); (ix) released a new report on domestic ethanol fuel production capacity (Energy Information Administration); (x) produced an analytic report mapping the results from individual State student assessments to results from the National Assessment for Educational Progress to provide a framework for com-

parisons across State assessments (National Center for Education Statistics); (xi) initiated work on a pilot survey to gather information about innovation among firms with fewer than five employees (National Center for Science and Engineering Statistics/NSF and Statistics of Income Division, IRS); (xii) developed a capacity to project selected income items for Social Security Disabled Worker beneficiaries (Office of Research, Evaluation, and Statistics, SSA); and (xiii) developed new data items related to economic stimulus programs, and other recently enacted legislation, that are administered through the tax system (Statistics of Income Division, IRS).

For Federal statistical programs to be useful to their wide range of users, the underlying data systems must be credible. To foster this credibility, Federal statistical programs seek to adhere to high-quality standards and to maintain integrity and efficiency in the production of data. As the collectors and providers of these basic statistics, the responsible agencies act as data stewards—balancing public information demands and decision-makers' needs for information with legal and ethical obligations to minimize reporting burden, respect respondents' privacy, and protect the confidentiality of the data provided to the Government. The Administration remains committed to maximizing the cost-effective use of resources for the collection of Federal statistics within a constrained fiscal environment. Accordingly, the President's plan to consolidate agencies focused on trade and competitiveness would merge statistical programs currently in the Department of Commerce, the Department of Labor, and the National Science Foundation into the new department; this proposal would be submitted to the Congress following enactment of consolidation authority, as proposed by the "Reforming and Consolidating Government Act of 2012." This chapter presents highlights of principal statistical agencies' 2013 budget proposals.

### Highlights of 2013 Program Budget Proposals

The programs that provide essential statistical information for use by governments, businesses, researchers, and the public are carried out by agencies spread across every department and several independent agencies. Excluding cyclical funding for the decennial census, approximately 40 percent of the total budget for these programs provides resources for 13 agencies or units that have statistical activities as their principal mission (see Table 19–1). The remaining funding supports work in more than 80 agencies or units that carry out statistical activities in conjunction with other missions such as providing services, conducting research, or implementing regulations. More comprehensive budget and program information about the Federal statistical system, including its core programs,

will be available in OMB's annual report, *Statistical Programs of the United States Government, Fiscal Year 2013*, when it is published later this year. The following highlights elaborate on the Administration's proposals for the programs of the principal Federal statistical agencies, giving particular attention to new initiatives and to other program changes, including terminations or reductions.

**Bureau of Economic Analysis (BEA):** Funding is requested to continue BEA's core programs and to: (1) continue to implement a critical modernization of the Bureau's information technology system that would lead directly to an increase in the operational efficiency and security of BEA's statistical production and analysis; (2) produce gross domestic product by industry on a quarterly basis to provide real-time information on the health and stability of sectors within the U.S. economy; and (3) provide measures of median, as well as mean, income and other measures of the distribution of income across households to improve understanding of how the business cycle affects U.S. households. In order to fund these priorities, BEA will seek operational efficiencies as well as modifications to reporting thresholds and published detail on surveys of operations of multinational corporations.

**Bureau of Justice Statistics (BJS):** Funding is requested to: (1) improve BJS' criminal victimization statistics derived from the National Crime Victimization Survey (NCVS) and continue to address recommendations of the 2008 National Research Council report, *Surveying Victims: Options for Conducting the National Crime Victimization Survey* with special emphasis on sub-national estimates and the crimes of rape and sexual assault; (2) explore the use of administrative records data in police and correctional agencies for providing statistical data in these areas including recidivism information, arrests, and offenses known to the police; (3) expand the surveys of inmates of prisons and jails to inform the process of re-entry; (4) maintain BJS' core statistical programs that provide law enforcement data from more than 3,000 local agencies on the organization and administration of police and sheriffs' departments; nationally representative prosecution data on resources, policies, and practices of local prosecutors; court and sentencing statistics, including Federal and State case processing data; data on correctional populations and facilities from Federal, State, and local governments; and information about prisoner re-entry and recidivism; and (5) continue to support the enhancement of criminal justice statistics available through State analysis centers.

**Bureau of Labor Statistics (BLS):** Funding is requested to provide support for ongoing BLS programs, and to: (1) modify the Consumer Expenditure survey to support the Census Bureau in its development of a supplemental statistical poverty measure; and (2) add an annual supplement to the Current Population Survey to capture data on contingent work and alternative work arrangements in even years, and on other topics in odd years. The funding request also includes program reductions that: (1) continue the elongation of National Longitudinal Surveys of Youth started in 2012; and (2) eliminate the International Labor Comparisons program.

**Bureau of Transportation Statistics (BTS):** Funding is requested to maintain BTS' core statistical programs, and to: (1) continue implementation of the 2012 Commodity Flow Survey; (2) develop and manage the International Freight Data System to support the Automated Commercial Environment/International Trade Data System; (3) enhance production of a core set of transportation performance indicators including the Transportation Services Index; (4) establish a Safety Data portal to serve U.S. DOT and other transportation safety communities; (5) initiate a long distance travel data program for use in making transportation investments; (6) deploy the performance metrics program to safeguard the quality of DOT data; and (7) reintroduce the international *Journal of Transportation and Statistics*. The budget proposes to move BTS along with the rest of the Research and Innovative Technology Administration to the Office of the Secretary of Transportation.

**Census Bureau:** Funding is requested to continue Census Bureau core programs, and to: (1) conduct the 2012 Economic Census and the 2012 Census of Governments, including distribution of, and data capture from, millions of census forms; (2) continue research and testing for the 2020 Census to support fundamental changes to program, business, operational, and technical processes; (3) complete the 2010 Count Question Resolution program and publish the Public Use Microdata Sample as well as the 2010 Census data products for Guam, American Samoa, Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands; and (4) expand research and production capacities in order to complement the official poverty measures with annual supplementary measures of poverty from the Current Population Survey.

**Economic Research Service (ERS):** Funding is requested to continue ERS' highest priority core programs, including research: (1) exploring how investments in rural people, business, and communities affect the capacity of rural economies to prosper in the new and changing global marketplace; (2) on economic issues related to developing natural resource policies and programs that respond to the need to protect and maintain the environment and the challenges of climate change while improving agricultural competitiveness and economic growth; (3) on production agriculture, domestic and international markets, Federal farm policies, and trade to develop and disseminate analysis of the U.S. food and agriculture sector's performance in the context of increasingly globalized markets; and (4) to evaluate the Nation's nutrition assistance programs, to study the relationship among the many factors that influence food choices and health outcomes including obesity, and to focus on enhancing methodologies for valuing societal benefits associated with reducing food safety risks.

**Energy Information Administration (EIA):** Funding is requested to maintain core energy statistics, analyses, and forecasting programs, and to: (1) restore important electricity trade data collection and add collection of monthly oil production data; (2) revitalize the energy consumption data program to enhance understanding of energy use and provide benchmarking and

performance measurement of energy efficiency programs; (3) modernize the systems and tools used to produce EIA's weekly petroleum and natural gas statistical reports, on which industry and market participants heavily rely; (4) enhance energy modeling and analytic capabilities to address a range of important topics, including international markets, short-term forecasts, end-use efficiency, refinery activities, the interrelationship of energy and financial markets, and the analysis of refined product markets; (5) leverage technology to more efficiently manage data collection and processing across the agency; and (6) enhance customer access and usability of EIA's information by developing more integrated and interactive dissemination platforms.

**National Agricultural Statistics Service (NASS):** Funding is requested to continue NASS' core programs, and to: (1) fully fund the Census of Agriculture during the peak data collection and processing year 2013; and (2) improve the quality of county estimates. Increases to support these initiatives will be partially offset by suspending the following programs for 2012 and 2013 -- Distiller Co-Products for Feed Survey, Nursery Report, and Post-Harvest Chemical Use Survey. In addition, NASS will reduce the frequency of chemical use reports and model Milk Production data in eight out of twelve months during the year.

**National Center for Education Statistics (NCES):** Funding is requested to continue NCES' core programs, and to: (1) conduct the National Assessment of Educational Progress, including administration of the 2013 national and State reading and mathematics assessments at grades 4, 8, and 12; (2) pilot a State-representative sample of the Program of International Student Assessment of 15 year-olds in reading, mathematics, and science for a limited number of participating States; (3) conduct a college choice follow-up data collection for the High School Longitudinal Study of 2009 cohort as it enters postsecondary education; (4) conduct field testing and development work for the Longitudinal Study of Early Adolescence; (5) continue developmental work on measuring adults' acquisition of education and training oriented toward work, including certificates and certifications, and begin collecting related data in partnership with other Federal statistical agencies; and (6) continue the development of State longitudinal data systems by assisting States in expanding their systems to include unit record data on students from prekindergarten through K-12 as well as postsecondary levels and by furthering the voluntary Common Education Data Standards to ensure interoperability of State systems.

**National Center for Health Statistics (NCHS):** Funding is requested to continue data collection, analysis, and dissemination activities for key national health data systems, including the National Vital Statistics System, National Health Interview Survey, National Health and Nutrition Examination Survey (NHANES), and National Health Care Surveys, and to continue to: (1) provide timely, accurate estimates of high priority health measures; (2) enhance the quality and usability of health data through improved access tools and tutorials; (3) use

birth and death data collected by the States for tracking priority health initiatives in prevention, cancer control, out-of-wedlock births, and teenage pregnancy; (4) monitor health care utilization through the family of provider surveys; (5) provide NHANES data on diet and nutrition, blood pressure, chronic diseases, and other health indicators; and (5) provide information annually and quarterly on the health status of the U.S. civilian non-institutionalized population through confidential household interviews conducted by the National Health Interview Survey. Requested funding would also support the expansion of Vital Statistics to fully implement electronic birth records in the eight remaining jurisdictions.

**National Center for Science and Engineering Statistics (NCSES), NSF:** Funding is requested to maintain and enhance ongoing programs, and to explore and increase support for emergent areas of responsibility ascribed to NCSES in Section 505 of the America COMPETES Reauthorization Act of 2010, including using the data it collects to support research on methodologies in areas related to NCSES' work, and supporting the education and training of researchers in the use of large-scale, nationally-representative data sets. As a cost-saving measure, NCSES will accelerate efforts to rely more heavily on data from the National Survey of College Graduates built from the American Community Survey to meet its needs for data on the overall science and engineering workforce.

**Office of Research, Evaluation, and Statistics (ORES), SSA:** Funding is requested to continue ORES' core programs, and to continue to: (1) modernize ORES' processes for developing and disseminating data from the Social Security Administration's major administrative data files for statistical purposes; (2) support outside surveys and linkage of SSA administrative data to surveys; (3) create new public use files of administrative data, such as earnings histories for a sample of Social Security Numbers, and information on samples of Social Security and Supplemental Security Income beneficiaries; (4) strengthen microsimulation models that estimate the distributional effects of proposed changes in Social Security programs; (5) develop a topical module for the redesign of the Survey of Income and Program Participation (SIPP) to address Social Security's data needs for microsimulation models, program evaluation, and analysis; (6) provide statistical and analytical support for initiatives to improve Social Security and other government agency programs; (7) fund retirement research through three Retirement Research Centers; and (8) expand disability research and commission expert studies on critical program design issues through the Disability Research Consortium.

**Statistics of Income Division (SOI), IRS:** Funding is requested to continue SOI's core programs, providing high quality statistical data derived from tax and information returns. Areas of special emphasis in 2013 will include: (1) further modernizing tax data collection systems by efficiently assimilating data captured from the electronic filing of tax and information returns to the SOI program; (2) integrating population and information return data with SOI-edited data to provide rich longitu-



dinal and/or cross-sector data that can be used to better understand the complex interaction between taxes and economic behavior; (3) developing improved statistical techniques for identifying and correcting outliers and data anomalies in IRS administrative population files;

(4) contributing data and analytical support to IRS' ongoing efforts to improve customer service, compliance, and employee satisfaction; and (5) partnering with tax policy experts within and outside of government to produce top quality research on important tax administration issues.

**Table 19–1. 2011–2013 BUDGET AUTHORITY FOR PRINCIPAL STATISTICAL AGENCIES<sup>1</sup>**

(In millions of dollars)

	2011 Actual	Estimate	
		2012	2013
Bureau of Economic Analysis .....	93	92	97
Bureau of Justice Statistics <sup>2</sup> .....	68	53	68
Bureau of Labor Statistics .....	610	609	618
Bureau of Transportation Statistics .....	24	25	38
Census Bureau <sup>3</sup> .....	1180	910	1000
Salaries and Expenses <sup>3</sup> .....	289	276	289
Periodic Censuses and Programs .....	891	634	711
Economic Research Service .....	82	78	77
Energy Information Administration .....	95	105	116
National Agricultural Statistics Service <sup>4</sup> .....	156	159	179
National Center for Education Statistics <sup>5</sup> .....	265	266	266
Statistics <sup>5</sup> .....	126	127	133
Assessment .....	130	130	125
National Assessment Governing Board .....	9	9	8
National Center for Health Statistics <sup>6</sup> .....	139	139	162
National Center for Science and Engineering Statistics, NSF <sup>7</sup> .....	42	44	42
Office of Research, Evaluation, and Statistics, SSA .....	29	29	29
Statistics of Income Division, IRS .....	39	40	40

<sup>1</sup> Reflects any rescissions.

<sup>2</sup> Includes funds for management and administrative costs of \$8.3, \$8.3, and \$8.3 million in 2011, 2012, 2013, respectively, that were previously displayed separately.

<sup>3</sup> Salaries and Expenses funds include discretionary and mandatory funds.

<sup>4</sup> Includes funds for the periodic Census of Agriculture of \$33.1, \$41.6, and \$62.5 million in 2011, 2012, and 2013, respectively. The annual increases of \$8.5 million and \$20.9 million in Census funding are for the 2012 peak preparation year and 2013 final data collection and processing, respectively.

<sup>5</sup> Includes funds for salaries and expenses of \$18, \$18, and \$18 million in 2011, 2012, and 2013, respectively, that are reflected in the Institute of Education Sciences (IES) budget. In addition, NCES manages the IES grant program for the State Longitudinal Data System which is funded at \$42 million, \$38 million, and \$53 million in 2011, 2012, and 2013, respectively.

<sup>6</sup> All funds from the Public Health Service Evaluation Fund. The estimates do not include resources from the Prevention and Public Health Fund.

<sup>7</sup> Includes funds for salaries and expenses of \$6.9, \$7.6, and \$7.6 million in 2011, 2012, and 2013, respectively, that were previously displayed separately.

## 20. INFORMATION TECHNOLOGY

The Administration is committed to building a 21st century Government that is more efficient and effective for the American people. The strategic use of Federal information technology (IT) enables this transformation by maximizing the return on investment in IT through continued oversight and accountability; using technology to improve Government productivity and saving money; lowering barriers to citizen and business interaction with the Government; and bolstering cybersecurity. The cornerstone of the Administration's information technology strategy is the 25-Point Implementation Plan to Reform Federal Information Technology Management (referenced in this chapter as the Administration's *25-Point Plan*)<sup>1</sup>, which was released in December 2010.

Specific initiatives and accomplishments over the past year include the following:

- The Data Center Consolidation effort resulted in agencies committing to close nearly 1,100 data centers by 2015 (exceeding the original goal of 800), with 525 of those closures expected to be completed by the end of 2012 (over 25 percent of these closed in 2011). Consolidations are expected to save the Government \$3 billion by 2015, and result in more savings in the years beyond 2015.
- Based on the Cloud First policy, which makes the safe and secure adoption of cloud computing the default option for the Government, agencies reported that 40 services have already moved to the cloud. This movement to the cloud is consistent with industry best practices. An additional 79 services are slated for transition by June 2012, and more than 50 legacy systems have been eliminated. The adoption of cloud solutions has eliminated duplicative systems, while also integrating new levels of security, reliability, and functionality, to include collaboration, virtual meetings, and other innovations. As examples, the USDA is migrating 120,000 users across 5,000 locations to the cloud, which will reduce costs by \$27 million over five years, while the GSA has shifted 17,000 users to the cloud, and anticipates savings of \$15 million over five years.
- The past year has also demonstrated the continued success of the TechStat initiative, which provides evidence-based reviews of agency IT investments conducted between OMB and agency leadership. This approach has reduced the life-cycle costs for major IT investments by \$3 billion. The TechStat model has now been scaled to the agency level and each agency has strengthened their investment review process, ensuring a greater return on America's investment in IT through this rigorous process. The

result across all agencies is over \$900 million dollars in reduced costs, in addition to hundreds of management improvements stemming from these oversight and accountability reviews, bringing total cost implications of this accountability tool to nearly \$4 billion.

- IT workforce initiatives have also yielded success over the past year. To address a recognized need for strengthening the IT workforce, the Administration created a new job title (and a specialized position description) for IT program managers within the IT specialist job series, as part of ensuring that the largest, most complex IT investments in the Government are managed by experienced, talented individuals. Additionally, the Presidential Technology Fellows Program was launched, which will reduce the barriers to entering public service, and provide access to unique career opportunities in Federal agencies to highly talented technology professionals.

In 2012-2013, building on the progress of the last two-and-a-half years, the Administration will continue to drive innovation in Government and make investments in technology that better serves the American people through the following priority focus areas.

### MAXIMIZING RETURN ON INVESTMENT (ROI)

The first focus area will be on maximizing the return on American taxpayers' investment in the Government's nearly \$80 billion IT budget (described below), by driving efficiency throughout the Federal enterprise. As indicated above, improved oversight of Government IT projects through the TechStat process over the last two years has avoided future costs of almost \$4 billion, while at the same time accelerating the delivery of modular, usable, components. By continuing to hold each agency accountable for driving these kinds of reforms, savings can be driven across Government and reinvested in services that benefit the American people.

**Federal Spending on IT**—The total planned spending on IT in FY 2013 (see **Table 20-1**) is \$78.9 billion, a 1.2 percent decrease from the 2012 enacted level of \$79.8 billion. As Table 20-1 shows, this overall reduction is driven by declines in Department of Defense IT spending, which dominates the smaller increases in major civilian agencies. Spending estimates displayed in Chart 20-1 depict how the historical growth in overall IT spending (7.1 percent per year over 2001-2009), has effectively been halted (zero growth over 2009-2013). Further, as more detailed data on the IT Dashboard (see: <http://www.itdashboard.gov/>) show, even as overall spending is restrained, the civilian agencies' share spent on enhancement and modernization of IT assets is increasing.

<sup>1</sup> <http://www.cio.gov/documents/25-Point-Implementation-Plan-to-Reform-Federal%20IT.pdf>.

**Table 20-1. FEDERAL IT SPENDING 2011-2013, INCLUDING MAJOR FEDERAL IT INVESTMENTS**  
(Spending in millions of dollars)

	2011	2012	2013
Major IT Investment Spending (Defense) .....	12,796	14,460	13,422
Major IT Investment Spending (Major Civilian Agencies) .....	26,591	26,732	26,866
Major IT Investment Spending (Total) .....	39,387	41,192	40,288
All IT Investment Spending (Defense) .....	35,413	38,593	37,203
All IT Investment Spending (Major Civilian Agencies) .....	41,094	41,243	41,702
All IT Investment Spending (Total) .....	76,507	79,835	78,906

Note: Agency estimates for the FY 2013 Budget. Department of Defense estimates for some investments, for which details are classified, are not reported to the IT Dashboard. However, summary information on spending for these investments is not classified, and these investments are therefore included in the above totals.

**Shifting the Focus from Capital Investment to Operating Expenses**—In 2012-2013, having realized significant economies through better management of agencies' capital investments in IT over 2010-2011, the Administration will broaden its approach by encouraging a shift from a capital intensive model to a more agile, operational focus. In 2012 agency CIOs will be reviewing entire agency IT portfolios for potential savings, prioritizing cloud implementation, commodity IT, and intra-agency shared services.

**Data Center Consolidation**—In 2010-2011, the Administration prioritized data center consolidation to maximize the effectiveness of Federal IT assets and deliver improved return on investment for infrastructure. By shutting down, optimizing and consolidating data centers, we can save taxpayers billions of dollars, curb spending on underutilized infrastructure, focus more resources on modernizing services the American people depend on, reduce our cyber security threat posture, increase sustainability within data centers, unlock capital, and enable agencies to reinvest in transformational IT investments, including cloud solutions.

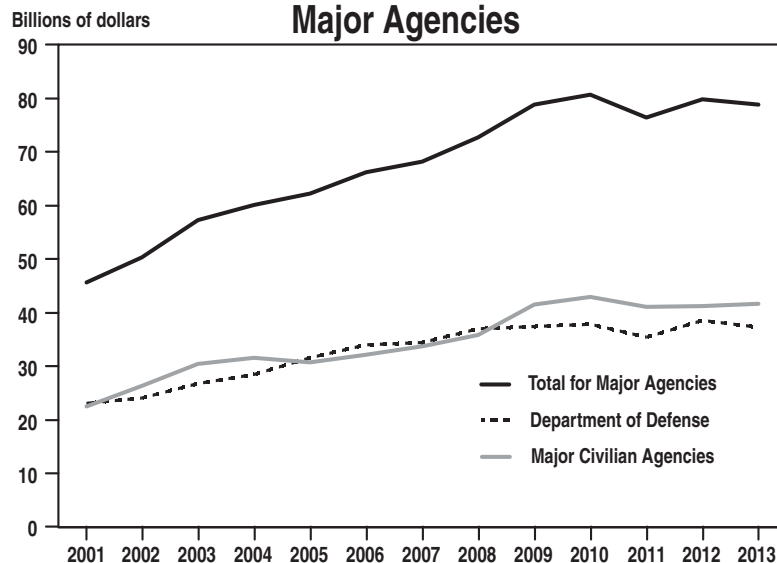
A second important element of the data center consolidation efforts is to focus on enhancing the productivity of

the data centers that remain in our inventory. This means a shift from the historical model where the Government set up redundant data centers that used too much energy, wasted valuable real estate and failed to take advantage of the installed computing capacity. Moving forward, the Government will shift to a newer operating model that requires Agencies to review existing data center capacity for use before investing in a potentially duplicative capability.

Recently, the Administration announced that agencies plan to close nearly 1,100 data centers through 2015, with 525 of those closures expected to be complete by the end of 2012 (over 25 percent of these closed in 2011). Agencies' planned closures exceed the Government's goal to close over 800 data centers set forth the Administration's *25-Point Plan*, a goal currently being revised upward. More importantly, consolidation efforts are expected to save the Federal Government \$3 billion by 2015, and result in more savings in the years beyond 2015.

In 2012-2013, the Federal Data Center Consolidation Task Force, an interagency body that drives consolidation within Federal agencies, will further advance a data center marketplace designed to allow agencies to leverage unused capacity across the Government, improve a total cost model which provides a consistent way to derive con-

**Chart 20-1. Trends in IT Spending for Major Agencies**



solidation savings, and continue sharing best practices and lessons learned from the public and private sectors.

**Cloud Computing**—Since the Federal Cloud Computing Initiative was launched in 2009, the Administration has made a Cloud First Policy an important part of the *25 Point Plan*<sup>2</sup>. This policy explains how cloud computing will enable the Government to eliminate duplicative systems and applications, fragmented resources, and underutilized technology assets.

The Cloud First policy is intended to accelerate the pace at which the Federal Government will realize the value of cloud computing. It requires agencies to evaluate safe, secure cloud computing options before making any new investments. Under this policy, the Government will fundamentally change the way it buys information technology by shifting from an asset mindset to one of service delivery. As a result, Federal agencies using cloud solutions will improve their IT portfolio to save money, increase innovation, maximize asset utilization, and improve IT responsiveness.

In 2011, under the IT Reform Plan, Federal agencies migrated 40 services to cloud computing environments, with an additional 39 services to be migrated in 2012. With these migrations, cloud computing has become an integral part in helping the Federal Government operate its IT assets more efficiently, thereby providing increased service delivery to citizens. As more Government systems and users move to cloud computing environments, the Federal Government needs to ensure the safety, security and reliability of its data.

In order address these issues and meet the increasing demand of cloud migrations, the Administration has established the Federal Risk Authorization Management Program (FedRAMP). The Program introduces an innovative policy approach to developing trusted relationships between agencies and cloud service providers. Currently, the Federal Government spends hundreds of millions of dollars a year securing the use of IT systems in a duplicative, inconsistent, and time consuming manner. FedRAMP establishes a standardized approach to security assessment, authorization, and continuous monitoring for cloud solutions. Using a “do once, use many times” framework, Federal agencies will reduce the cost, time, and staff currently associated with conducting agency security assessments. Agencies will also be able to take advantage of a uniform risk management approach that utilizes a standard set of security controls, thereby increasing the Government’s overall cybersecurity posture. FedRAMP is intended to reduce approximately 30-40% of government-wide costs associated with assessing, authorizing, and continuously monitoring cloud solutions.

**Improved IT Dashboard**—As experience with real-time monitoring of agency IT investment data on the IT Dashboard has grown, the Office of Management and Budget (OMB), in close collaboration with agencies and with input from the General Accounting Office (GAO), has undertaken to improve the quality and focus of data collection for this flagship transparency site. In 2012, the IT

Dashboard will be updated with all new data schema and historical trend data, building on the recommendations of an interagency working group and providing even greater transparency into the Federal IT investment portfolio. More targeted and detailed data on major IT development activities will allow closer oversight, and assist Agency Heads and CIOs in intervening early to prevent schedule delays, cost overruns, and failures to deliver key functionality needed by Federal programs.

Greater focus on operational metrics will be emphasized in 2012, supporting the drive for greater efficiency through policies on managing spending on commodity IT, and a renewed emphasis on shared services. Additionally, improved interfaces of agency IT management systems with the IT Dashboard will further improve oversight and the quality of the data. Already, the IT Dashboard is setting an example for a more open, accessible approach to the evolution of Federal Government systems, through its open source policy, with IT Dashboard application code available since March 31, 2011 at <http://sourceforge.net/projects/it-dashboard/>. This approach was expanded in late in 2011 to include open discussion forums at this site.

**IT Management Oversight (TechStats)**—Since January 2010, the IT Dashboard has been used by OMB to inform an oversight process of “TechStat” accountability sessions. A TechStat is a face-to-face, evidence-based review of an IT investment, where all stakeholders in a project are convened to diagnose problems and agree on solutions. TechStat reviews address what had been a major weakness in prior oversight models, by accelerating the intervention in troubled projects to produce immediate impacts through timely corrective actions, and often avoid significant costs, particularly in cases where projects are halted or terminated.

With the release of the 25 Point Plan in December 2010, the second phase of TechStat was initiated, in which agency CIOs led TechStats at the departmental level. In order to ensure TechStats built upon existing best practices within agencies that had already launched aggressive Investment Review Boards (IRBs), OMB worked with a task force of agency leads to develop, document, and release the TechStat Toolkit, a comprehensive guide to holding TechStats at the agency-level. To ensure that the desired outcomes were well-understood by agency TechStat leads, OMB held in-person training sessions through February 2011 in which all CFO-Act agencies<sup>3</sup> sent at least one representative.

By March 2011, all CFO-Act agencies were required to hold at least one agency-led TechStat. Since then, agencies have continued to hold sessions on an ongoing basis. In August 2011, OMB took an additional step to support the rollout of the TechStat governance model to the agency level with the issuance of the OMB’s Memorandum entitled “Chief Information Officer Authorities”<sup>4</sup>. This memo-

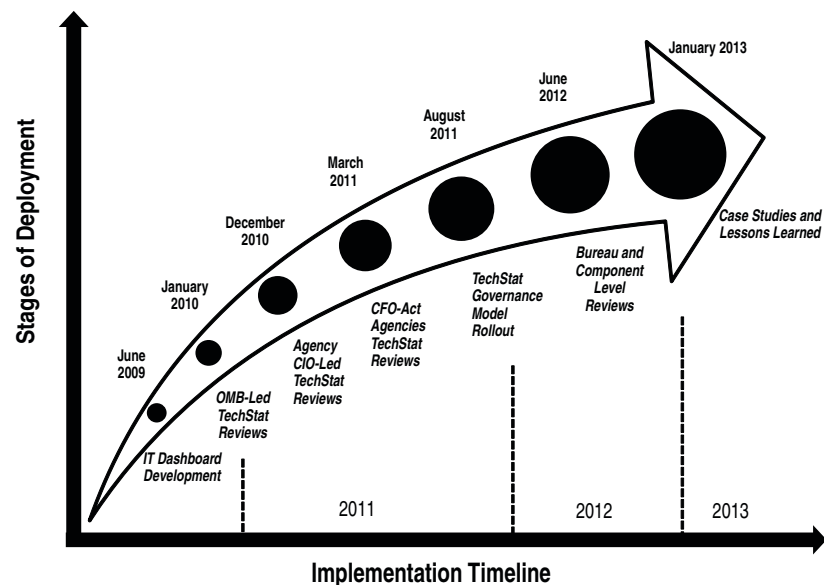
<sup>2</sup> Federal Cloud Computing Strategy, February 8, 2011, U.S. Chief Information Officer, The White House. See: <http://www.cio.gov/documents/Federal-Cloud-Computing-Strategy.pdf>.

<sup>3</sup> The CFO Act refers to the Chief Financial Officer and Federal Financial Reform Act of 1990, Public Law 101-576. This law addresses, in particular, requirements targeting 24 Federal agencies, including all Cabinet-level Departments and some independent agencies, generally referred to as “CFO Act” agencies.

<sup>4</sup> OMB Memorandum M-11-29, dated Aug. 8, 2011. Subject: “Chief Information Officer Authorities.” See: <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2011/m11-29.pdf>



## Chart 20-2. The Evolution of the TechStat Review Process



randum directs “changing the role of Agency CIOs away from just policymaking and infrastructure maintenance, to encompass true portfolio management for all IT.” As noted in the memorandum, the goal of such reviews is to terminate or turn around “one third of all underperforming IT Investments by June 2012.” To date, CIOs across the Government have held 294 agency-led TechStats, and the results of these reviews have enabled agencies to achieve over \$900 million in cost implications (e.g. cost savings, life cycle cost avoidance, and/or reallocation of funding).

**Shared First**—Shared First is an initiative aimed at rooting out waste and duplication across the Federal IT portfolio. Through the Shared First initiative, agencies will identify opportunities to shift to intra-agency commodity IT shared services, leverage technology, procurement, and best practices across the whole of government, and build on existing investments rather than supporting a multitude of agency efforts. OMB Memorandum M-11-29, referenced above, was the first step towards establishing and communicating the Shared First initiative. This memorandum directs Agency CIOs to pool their agency’s purchasing power across the entire organization to drive down costs and improve service for commodity IT, while capitalizing on shared services (intra- and inter- agency) instead of standing up duplicative services. OMB’s Shared IT Services Strategy, to be issued in 2012, will detail how Agencies should plan for, and implement, a short- and long- term shared services approach in fiscal year 2012 and beyond.

**Strengthening the IT Workforce**—The Administration has worked with the Office of Personnel Management (OPM) to professionalize program management by creating a formal, Government-wide IT program manager career path. Project success also depends on cross functional teams skilled in key disciplines to sup-

port comprehensive program management approaches. Improving IT acquisition outcomes is also improved by developing specialized IT acquisition cadres which focus on requirements development and provide targeted support where program risks are the greatest. Now no major IT project is allowed to proceed until senior agency officials ensure that a complete and dedicated integrated program team is in place. The Administration’s improved Federal Acquisition Certification for Contracting Officer’s Representatives strengthens this key role in Federal acquisition to ensure that contractors meet the commitments of their contracts.

To attract critical new talent the Administration created the Presidential Technology Fellows Program, which will reduce barriers to entry for talented graduate-level IT professionals. Designed to integrate the next generation of IT professionals, this program will allow the Federal Government to tap into an emerging talent pool and begin to build a sustainable pipeline of human capital. The Entrepreneur in Residence program was also initiated, which enables the Government to capitalize on subject matter experts across various communities to bring innovative practices and technologies into the government.

**IT Reform – Employing Best Practices**—As part of the *25-Point Plan*, the Federal CIO Council in 2011 launched a Best Practices platform on *CIO.gov* to provide agency case studies that demonstrate best practices in managing large-scale Federal IT systems.<sup>5</sup> This platform will be expanded in FY2012 and beyond. The Administration has encouraged agencies to develop practices that will ensure early, frequent, and constructive communication during the acquisition process to ensure that the government clearly understands the marketplace and can obtain an effective solution at a reasonable price.

<sup>5</sup> Federal CIO Council, [http://www.cio.gov/modules/best\\_practices/](http://www.cio.gov/modules/best_practices/).

## CLOSING THE PRODUCTIVITY GAP—A 21ST CENTURY GOVERNMENT

To help close the productivity gap between the private sector and the Federal Government, the Administration is focused on enabling a “future ready” workforce equipped with the modern tools and technologies they need to serve the American people effectively. This includes initiatives such as developing smart telework policies that give employees increased flexibility, reducing the real estate footprint, and better enabling the Government to function effectively during an emergency. Additionally, this strategy will enable the Government to think strategically about how it buys, manages and uses mobile devices and collaboration tools cost-effectively and securely.

Overall, the Government needs to shift away from a paper-based mindset and focus on delivering information efficiently and effectively using digital tools. The following initiatives will support this strategy.

**Future-Ready Architecture** -- Agencies continue to face the challenge of having to provide new or updated IT services with limited resources. In 2012-2013, the Administration will develop guidance that promotes more agile, modular development, and contracting practices, and emerging technologies to speed the delivery of value and lower the risk of failure in IT projects.

**Transition to Internet Protocol Version 6 (IPv6)**—In September 2010, OMB issued a memorandum<sup>6</sup> requiring Executive Branch agencies to operationally deploy native Internet Protocol Version 6 (IPv6) for public Internet servers and internal applications that communicate with public servers. This directive builds upon an August 2005 memorandum<sup>7</sup>, Transition Planning for Internet Protocol Version 6 (IPv6), which led to the key early step of IPv6 being deployed in all Federal Government agency network backbones in 2008.

**Accelerating Federal Mobility**—Agencies are increasingly using mobile technologies (e.g., laptops, smartphones, tablets, location-based services, hand-held scanners, wi-fi, etc.) to provide information, products, and services to customers and to facilitate internal and external communications, collaboration, and operations. However, agencies need stronger policies and procedures to ensure that mobile technologies/services are acquired and used strategically and securely. Mobility efforts are frequently developed and managed at the program-level, and valuable resources or lessons learned are not shared across the enterprise. Recent GAO and OMB internal reports have found gaps in security in current mobile systems and controls. The procurement of mobile devices is often scattered across the agency, bypassing enterprise-wide efforts designed to leverage bulk purchasing discounts. The Administration will publish a Mobile Strategy in FY2012 to ensure that the Federal Government cost-effectively capitalizes on mobility solutions.

<sup>6</sup> Memorandum dated Sept. 28, 2011. Subject: “Transition to IPv6.” See: <http://www.cio.gov/Documents/IPv6MemoFINAL.pdf>.

<sup>7</sup> Memorandum dated Aug. 5, 2005. Subject: “Transition Planning for Internet Protocol Version 6 (IPv6).” See: <http://www.whitehouse.gov/sites/default/files/omb/assets/omb/memoranda/fy2005/m05-22.pdf>.

## BUSINESS/CITIZEN INTERACTION AND NATIONAL PRIORITIES

Creating a more transparent and open Government which better serves national priorities is one of the fundamental objectives of this Administration. In the areas of transparency, key recent initiatives include two projects stemming from recommendations of the President’s Council on Jobs and Competitiveness<sup>8</sup>—the Federal Infrastructure Projects Dashboard (Permitting Dashboard) and Business USA. The Administration also continues to make advances in Health IT, responding particularly to the Affordable Care Act, as well as to important health and productivity rationales that motivate the Nation to continue moving forward in this area. And, in a world that is increasingly seeing all aspects of our daily lives reflected on the Internet, the Administration has recognized that the growth of the Federal presence on the web has led to a need for a reform of “.Gov” domains controlled by Federal agencies. The specific focus areas under this priority include the following.

**The Federal Infrastructure Projects Dashboard**—The Federal Government plays a critical role in helping infrastructure projects advance as quickly as possible by making the permitting process more efficient, expediting environmental reviews, and improving coordination between agencies to ensure that timely progress is made on projects that support the vital economic growth of our nation. In November 2011, the beta version of the Federal Infrastructure Projects Dashboard (<http://permits.performance.gov/>) was launched to increase transparency around Federal permitting processes by providing the public with easy access to data on 14 high priority infrastructure projects across five lead agencies: HUD, DOT, USDA, Interior, and Commerce. These projects were identified pursuant to an August 2011 Presidential Memorandum<sup>9</sup>, in which the President directed Federal agencies to expedite environmental review and permitting processes for selected infrastructure projects that will create a significant number of jobs, and to improve the accountability, transparency, and efficiency of these processes.

**BusinessUSA**—When businesses work with the Federal Government, they should feel like they are dealing with one entity, not dozens of separate bureaucratic silos. To provide a suite of business services for our entrepreneurs, we need to break down silos in the Federal Government, both in Washington and across the country, and across all levels of Government and industry. On October 28th, 2011<sup>10</sup>, the President issued a challenge to Federal agencies to make it easier for businesses to access

<sup>8</sup> <http://www.whitehouse.gov/administration/advisory-boards/jobs-council>.

<sup>9</sup> Presidential Memorandum dated Aug. 31, 2011. Subject: “Speeding Infrastructure Development through More Efficient and Effective Permitting and Environmental Review.” See: <http://www.whitehouse.gov/the-press-office/2011/08/31/presidential-memorandum-speeding-infrastructure-development-through-more>.

<sup>10</sup> Presidential Memorandum dated Oct. 28, 2011. Subject: Making it Easier for America’s Small Businesses and America’s Exporters to Access Government Services to Help Them Grow and Hire. See: <http://www.whitehouse.gov/the-press-office/2011/10/28/presidential-memorandum-making-it-easier-americas-small-businesses-and-a>.

the full range of Government programs and services. As a result, the BusinessUSA initiative was established to create a comprehensive online platform for business and for all firms seeking to export their products, providing easy access to the wide range of relevant and timely Federal Government data, information and services. Moreover, this platform is being designed to be portable and re-usable for easy adoption by other mission areas throughout government.

**Transforming *Data.gov***—Free open Government data is critical to the efficiency of agencies and the Nation's economy. *Data.gov*, launched in early 2009, has enabled the public to easily find, access, understand, and use data generated by the Federal Government. It was launched with just 47 datasets, but today, the count of datasets is 400,000 and growing. Additionally, *Geodata.gov* has been integrated with *Data.gov* so that users can locate geospatial data and other data types in one location. A primary goal of improved access to Federal data is to expand creative uses of agency data beyond government, through innovative private sector web-based applications, strengthening democracy and the economy.

Through revolutionary communities such as *Health.data.gov* and *Energy.data.gov*, *Data.gov* is able to bring together American citizens and people from across the globe to share information, collaborate to solve problems, and organize collective action. *Data.gov* is also a leader in the international Open Government movement. As part of the India-U.S. Dialogue on Open Government launched in November 2010, the two countries have committed to jointly develop an open source *Data.gov* platform by the first quarter of 2012 to be taken to interested countries globally. This initiative will lead to an open source platform available for implementation by nations around the world, encouraging governments to stand up open data sites that promote transparency, citizen engagement, and economic benefits worldwide. By relying on a design using modern development strategies, this will facilitate technical innovations from a wider community, and provide more flexibility to users adopting the code.

**Health IT**—The Federal Health IT Task Force has made critical progress in the government-wide development, implementation and coordination of health IT policy; one high-priority area has been the alignment of Federal investments in health IT. In August 2011, the Deputy Administrator of E-Government & Information Technology and the National Coordinator for Health IT (ONC) issued guidance<sup>11</sup> re-emphasizing key health IT policy and technology principles developed through a consensus process by members of the Federal Health IT task force, including all major agencies with health IT programs.

The goal of these principles is to encourage better strategic alignment of health IT investments by guiding modernization strategies for existing systems, as well as new investment decisions. Agencies were asked to demonstrate how they plan to incorporate the policy and tech-

nology principles into future health IT investments and to provide specific examples for improving health and health care, promoting open government, securely sharing health information between providers for treatment purposes to enable better care, being a trusted steward of taxpayer dollars, and protecting privacy and security. Agencies will continue achieving alignment with the key health IT policy and technology principles for FY 2013 and beyond.

In September 2011, the Federal Health IT Strategic Plan: 2011-2015 was published.<sup>12</sup> This strategic plan was developed under the leadership of ONC, in close collaboration with other Federal partners, and incorporated public feedback. This strategic plan reflects Federal priorities to help eligible providers become meaningful users of health IT, support implementation of the Affordable Care Act, protect individuals' privacy, empower consumers with access to their health information, and support enhanced learning and innovation.

**Government Web Domain (.GOV) Reform**—The .gov reform effort, part of the Administration's *Campaign to Cut Waste*, is identifying unnecessary websites that can be consolidated to reduce costs and improve the quality of service to the American public. The President signed Executive Order 13571<sup>13</sup>, "*Streamlining Service Delivery and Improving Customer Service*," April 27, 2011, which requires Federal agencies to take specific steps to strengthen customer service, including how services and information are delivered on Federal ".gov" websites. This effort will eliminate and improve websites that are redundant, outdated, hard to use, or have poorly maintained content, which will lead to an improved online experience when the public interacts with Federal agencies. While many Federal websites provide taxpayers with valuable services and information, the proliferation of separate websites over many years, resulting in thousands of unique Federal .gov domains and websites, has made it sometimes difficult for users to find the content they need. The Administration, guided by input from the public, has moved to address these problems.

**USASpending.gov / FFATA / Grants / Contracts**—In FY 2012 *USASpending.gov* will continue to provide prime award information on contracts, grants, direct payments, insurance, loans, and other federal spending in one searchable location. *USASpending.gov* will also go on providing subaward data on contracts and grants while evolving to improve functionality. Additionally, the IT Dashboard continues to provide linkages from its IT investments data on major IT investments, to the contracts data pertaining to IT acquisitions.

**Performance**—The first version of *Performance.gov*, launched in FY 2011, continues to deliver value to agencies and the Administration, by serving as a central source for Federal performance information. This initial release was an important step toward meeting the trans-

<sup>11</sup> Memorandum dated Aug. 1, 2011; Subject: Health Information Technology Guidance, from the Deputy Federal CIO and National Coordinator for Health Information Technology, to selected agencies.

<sup>12</sup> Federal Health IT Strategic Plan 2011-2015. See: [http://healthit.hhs.gov/portal/server.pt/community/federal\\_health\\_it\\_strategic\\_plan\\_-\\_overview/1211](http://healthit.hhs.gov/portal/server.pt/community/federal_health_it_strategic_plan_-_overview/1211)

<sup>13</sup> <http://www.whitehouse.gov/the-press-office/2011/04/27/executive-order-13571-streamlining-service-delivery-and-improving-custom>.



parency requirements of the Government Performance and Results Modernization Act (GPRAMA)<sup>14</sup>, which requires performance information to be published to a central website in machine readable format, along with a list of Federal programs. Updates to the site will continue through 2012, to including agency strategic goals and objectives, and culminating in the full set of information required by the GPRAMA in machine readable format. This information will provide easier access to information on the work the Federal Government does, and how well it is doing at delivering results. This is useful for both external audiences, in terms of transparency, but also as a tool for internal management.

## CYBERSECURITY AND PRIVACY

America depends on Federal agencies for essential services, ranging from disaster assistance to Social Security to national defense. These services, in turn, rely on a safe, secure, and resilient Government information and communications infrastructure. Threats to this infrastructure—whether from criminal elements or nation-states—continue to grow in number and sophistication, creating the potential that essential services could be degraded or interrupted, and confidential information stolen or compromised, with serious effects.

- **Securing the Nation's IT Infrastructure**—In order to address the challenges ahead, the Administration's cybersecurity team will continue its vigorous and extensive build-out of technical and policy protection capabilities for Government systems, expand its partnerships with the private sector, and work with Congress to clarify roles and authorities. The Administration will assist and strengthen the abilities of Federal agencies to protect their infrastructure and data. Specifically, the Administration will:
  - **Assess and Improve the Effectiveness of Cybersecurity Defenses.** The Department of Homeland Security (DHS) will work with agencies to conduct objective assessments of agency infrastructures to determine operational readiness and cybersecurity risk. The results of these objective assessments will directly inform mitigation efforts to improve our overall security posture.
  - **CyberStat Sessions.** DHS will continue work with agencies to identify and correct weaknesses in cybersecurity programs. The reviews provide the opportunity for Agencies to identify the cybersecurity capability areas where they may be facing implementation maturity roadblocks, (e.g. technology, organizational culture, internal process, or human capital/financial resource challenges). In addition, CyberStat Reviews highlight areas where Agencies are meeting and exceeding required standards.
  - **Enhance Cybersecurity Program Monitoring,**

**Management, and Reporting Under the Federal Information Security Management Act (FISMA).** DHS will continue to focus FISMA on outcome-oriented measures that are quantitative, specific, and focused on reduction of risk. This will include an expansion of continuous monitoring.

- **Mature Critical Standards and Guidance.** The Administration will collaboratively develop and issue an outcome-focused set of metrics, reference architectures, and implementation guidance that support broad security improvements and improved management of critical security controls by Federal agencies.
- **Enhance the Cybersecurity Workforce.** The Administration will maintain a strong cadre of cybersecurity professionals to design, operate, and research cyber technologies, enabling success against current and future threats. In addition, the Administration will work to provide the cybersecurity professionals with tools, tips, education, training, awareness, and other resources appropriate to their positions that enable them to implement existing cybersecurity features and configurations in protocols, products, and services.
- **Reduce Vulnerabilities.** The Administration will work to design, build, and operate information and communication technology to specifically reduce the occurrence of exploitable weaknesses and enable technology to sense, react to, and communicate changes in its security or its surroundings in a way that preserves or enhances its security posture.
- **Prepare for Incidents.** The Administration will work to unify efforts to collaboratively respond to and rapidly recover from significant cyber incidents that threaten public health or safety, undermine public confidence, have a debilitating effect on the national economy, or diminish the security posture of the Nation.
- **Improve Identity Management.** Version 2.0 of the "Federal Identity, Credential and Access Management (FICAM) Roadmap and Implementation Guidance" was issued by the Federal CIO Council in December 2011.<sup>15</sup> This guidance helps steer agency efforts as they plan and upgrade their architectures, aiming to leverage existing investments and promoting efficiency in designing, deploying, and operating IT systems. As of September 1, 2011, more than 5.1 million Personal Identity Verification (PIV) credentials (89 percent of those needed) were issued to the Federal workforce, and over 5 million background investigations (87 percent of those needed) were completed, in accordance with Homeland Security Presidential Directive 12 (HSPD-12). Agencies are expected in 2012 to accelerate the use of PIV creden-

<sup>14</sup> P.L. 111-352, 124 Stat. 3866 (2011). GPRAMA amends P.L. 103-62, 107 Stat. 285 (1993).

<sup>15</sup> Federal Identity, Credential, and Access Management (FICAM) Roadmap and Implementation Guidance Version 2.0, December 2, 2011. See: [http://www.idmanagement.gov/documents/FICAM\\_Roadmap\\_and\\_Implementation\\_Guidance\\_v2%200\\_20111202.pdf](http://www.idmanagement.gov/documents/FICAM_Roadmap_and_Implementation_Guidance_v2%200_20111202.pdf).



tials in securing Federal facilities and IT systems. The National Institute for Standards and Technology (NIST), charged with revising the HSPD-12 standard (FIPS 201), is also moving to address the integration of PIV credentials with mobile devices and related advances in technology. And the Administration released the National Strategy for Trusted Identities in Cyberspace (NSTIC) in April 2011<sup>16</sup>, to promote public-private collaboration on an online identity environment to facilitate secure, efficient, easy-to-use, and interoperable identity solutions to access online services.

**Protecting Privacy**—Ensuring the privacy of personal information for all Americans remains a top Administration priority, especially as Federal agencies leverage emerging technologies such as cloud computing, mobile computing devices, and social media. The privacy implications in the use of these technologies must be considered, and agencies should collaborate on solutions and best practices to mitigate privacy risks. Federal agencies are expected to demonstrate continued progress in all aspects of privacy protection and to ensure compliance with all privacy requirements in law, regulation, and policy. Agencies must review their information systems to ensure

that they eliminate unnecessary holdings of personally identifiable information such as unnecessary collection and use of Social Security numbers. In addition, Federal agencies will continue to develop and implement policies outlining rules of behavior, detailing training requirements for personnel, and identifying consequences and corrective actions to address non-compliance. Agencies will work with their Senior Agency Officials for Privacy to ensure that all privacy impact assessments and system of records notices are completed and up-to-date. Finally, agencies will continue to implement appropriate data breach response procedures.

## CONCLUSION

The Administration is committed to fostering an efficient, effective, and transparent Federal Government by harnessing the power of technology. This commitment will be met by developing and implementing a Federal strategy that focuses on maximizing ROI; increasing the productivity of the Federal Government workforce; enhancing business and citizen engagement; and protecting critical assets through continued improvements in cyber security.

<sup>16</sup> Document released April 15, 2011. Title: National Strategy for Trusted Identities in Cyberspace. See: [http://www.whitehouse.gov/sites/default/files/rss\\_viewer/NSTICstrategy\\_041511.pdf](http://www.whitehouse.gov/sites/default/files/rss_viewer/NSTICstrategy_041511.pdf).

## 21. FEDERAL INVESTMENT

Federal investment is the portion of Federal spending intended to yield long-term benefits for the economy and the country. It promotes improved efficiency within Federal agencies, as well as growth in the national economy by increasing the overall stock of capital. Investment spending can take the form of direct Federal spending or of grants to State and local governments. It can be designated for physical capital, which creates a tangible asset that yields a stream of services over a period of years. It also can be for research and development, education, or training, all of which are intangible but still increase income in the future or provide other long-term benefits.

Most presentations in this volume combine investment spending with spending intended for current use.

This chapter focuses solely on Federal and federally financed investment. It provides a comprehensive picture of Federal investment spending, but because it disregards spending for non-investment activities, it provides only a partial picture of Federal support for specific national needs, such as defense, transportation, or environmental protection.

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

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

### PART I: DESCRIPTION OF FEDERAL INVESTMENT

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

The definition of investment in a particular presentation can vary depending on specific considerations:

- Taking the approach of a traditional balance sheet would limit investment to only those physical assets owned by the Federal Government, excluding capital financed through grants and intangible assets such as research and education.
- Focusing on the role of investment in improving national productivity and enhancing economic growth would exclude items such as national defense assets, the direct benefits of which enhance national security rather than economic growth.
- Examining the efficiency of Federal operations would confine the coverage to investments that reduce costs or improve the effectiveness of internal Federal agency operations, such as computer systems.

- Considering a “social investment” perspective would broaden the coverage of investment beyond what is included in this chapter to include programs such as maternal health, certain nutrition programs, and substance abuse treatment, which are designed in part to prevent more costly health problems in future years.

This analysis takes the relatively broad approach of including all investment in physical assets, research and development, and education and training, regardless of ultimate ownership of the resulting asset or the purpose it serves. It does not include “social investment” items like health care or social services where it is difficult to separate out the degree to which the spending provides current versus future benefits. The definition of investment used in this section provides consistency over time (historical figures on investment outlays back to 1940 can be found in the separate *Historical Tables* volume). Table 21–2 at the end of this section allows disaggregation of the data to focus on those investment outlays that best suit a particular purpose.

In addition to this basic issue of definition, there are two technical problems in the classification of investment data: the treatment of grants to State and local governments, and the classification of spending that could be shown in multiple categories.

First, for some grants to State and local governments it is the recipient jurisdiction, not the Federal Government that ultimately determines whether the money is used to finance investment or current purposes. This analysis classifies all of the outlays into the category in which the recipient jurisdictions are expected to spend a majority of the money. Hence, the Community Development Block Grants are classified as physical investment, although

some may be spent for current purposes. General purpose fiscal assistance is classified as current spending, although some may be spent by recipient jurisdictions on investment.

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

When direct loans and loan guarantees are used to fund investment, the subsidy value is included as investment. The subsidies are classified according to their program purpose, such as construction or education and training. For more information about the treatment of Federal credit programs, refer to the section on Federal credit in Chapter 12, "Budget Concepts," in this volume.

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

## Composition of Federal Investment Outlays

### Major Federal Investment

The composition of major Federal investment outlays is summarized in Table 21–1. They include major public physical investment, the conduct of research and development, and the conduct of education and training. Combined defense and nondefense investment outlays were \$537.9 billion in 2011. They are estimated to increase to \$591.7 billion in 2012 and decrease to \$549.1 billion in 2013. The major factors contributing to these changes are described below.

Major Federal investment outlays will comprise an estimated 14.4 percent of total Federal outlays in 2013 and 3.4 percent of the Nation's gross domestic product. Greater detail on Federal investment is available in Table 21–2 at the end of this section. That table includes both budget authority and outlays.

*Physical investment.* Outlays for major public physical capital investment (hereafter referred to as "physical investment outlays") were \$287.2 billion in 2011 and are estimated to rise to \$304.6 billion in 2012 before falling to \$291.6 billion in 2013. Physical investment outlays are for construction and rehabilitation, the purchase of major equipment, and the purchase or sale of land and structures. Approximately two-thirds of these outlays are for

**Table 21–1. COMPOSITION OF FEDERAL INVESTMENT OUTLAYS**

(In billions of dollars)

Federal Investment	Actual 2011	Estimate	
		2012	2013
Major public physical capital investment:			
Direct Federal:			
National defense .....	141.6	155.8	143.0
Nondefense .....	49.1	52.4	40.2
Subtotal, direct major public physical capital investment .....	190.6	208.2	183.2
Grants to State and local governments .....	96.5	96.5	108.3
Subtotal, major public physical capital investment .....	287.2	304.6	291.6
Conduct of research and development:			
National defense .....	79.7	80.8	77.6
Nondefense .....	64.0	64.2	61.6
Subtotal, conduct of research and development .....	143.6	145.0	139.2
Conduct of education and training:			
Grants to State and local governments .....	84.4	105.2	77.3
Direct Federal .....	22.7	36.8	41.1
Subtotal, conduct of education and training .....	107.1	142.1	118.4
<b>Total, major Federal investment outlays .....</b>	<b>537.9</b>	<b>591.7</b>	<b>549.1</b>
<b>MEMORANDUM</b>			
Major Federal investment outlays:			
National defense .....	221.2	236.6	220.6
Nondefense .....	316.7	355.1	328.5
Total, major Federal investment outlays .....	537.9	591.7	549.1
Miscellaneous physical investment:			
Commodity inventories .....	–3.4	–0.1	*
Other physical investment (direct) .....	4.7	3.0	2.9
Total, miscellaneous physical investment .....	1.3	2.9	2.9
Total, Federal investment outlays, including miscellaneous physical investment .....	539.2	594.6	552.0

\* \$50 million or less.

direct physical investment by the Federal Government, with the remainder being grants to State and local governments for physical investment.

Direct physical investment outlays by the Federal Government are primarily for national defense. Defense outlays for physical investment are estimated to be \$143.0 billion in 2013. Almost all of these outlays, or an estimated \$124.7 billion, are for the procurement of weapons and other defense equipment, and the remainder is primarily for construction on military bases, family housing for military personnel, and Department of Energy defense facilities. Defense outlays for physical investment increase from \$141.6 billion in 2011 to \$155.8 billion in 2012, primarily due to spending from prior-year balances of budget authority. The decrease in outlays between 2012 and 2013 results from reductions in budget authority in 2012 and 2013 due to the reduced need for the Department of Defense to upgrade equipment and replace combat losses because of the drawdown in the Iraqi theater.

Outlays for direct physical investment for nondefense purposes are estimated to be \$40.2 billion in 2013. This is a reduction from the \$52.4 billion in outlays in 2012, attributable to a decline in outlays from the obligation of significant one-time resources in the Advanced Technology Vehicle Manufacturing and other loan programs in the Department of Energy, and completion of most Recovery Act outlays in the Energy Efficiency and Renewable Energy program. Outlays for 2013 include \$21.4 billion for construction and rehabilitation. This amount includes funds for water, power, and natural resources projects of the Corps of Engineers, the Bureau of Reclamation within the Department of the Interior, and the Tennessee Valley Authority; construction and rehabilitation of veterans' hospitals and Indian Health Service hospitals and clinics; facilities for space and science programs; Postal Service facilities; energy conservation projects in the Department of Energy; construction for the administration of justice programs (largely in Customs and Border Protection within the Department of Homeland Security); construction of office buildings by the General Services Administration; and construction for embassy security. Outlays for the acquisition of major equipment are estimated to be \$18.3 billion in 2013. The largest amounts are for the air traffic control system; railroad system preservation; weather and climate monitoring in the National Oceanic and Atmospheric Administration; law enforcement activities, largely in the Department of Homeland Security and the Federal Bureau of Investigation; and information systems in the Department of Veterans Affairs.

Grants to State and local governments for physical investment are estimated to be \$108.3 billion in 2013, up from \$96.5 billion in 2012. Nearly 75 percent of these outlays, or \$80.8 billion, are to assist States and localities with transportation infrastructure, primarily highways; this category represents the majority of the increase in physical investment grants from 2012 to 2013. Other major grants for physical investment fund sewage treatment plants and other State and tribal assistance grants, community and regional development, and public housing.

*Conduct of research and development.* Outlays for the conduct of research and development are estimated to be \$139.2 billion in 2013. These outlays are devoted to increasing basic scientific knowledge and promoting research and development. They increase the Nation's security, improve the productivity of capital and labor for both public and private purposes, and enhance the quality of life. More than half of these outlays, an estimated \$77.6 billion, are for national defense. Physical investment for research and development facilities and equipment is included in the physical investment category.

Nondefense outlays for the conduct of research and development are estimated to be \$61.6 billion in 2013. These are largely for the National Institutes of Health, National Aeronautics and Space Administration, the Department of Energy, and the National Science Foundation.

A more complete and detailed discussion of research and development funding can be found in Chapter 22, "Research and Development," in this volume.

*Conduct of education and training.* Outlays for the conduct of education and training were \$107.1 billion in 2011 and are estimated to rise to \$142.1 billion in 2012 before falling to \$118.4 billion in 2013. These outlays add to the stock of human capital by developing a more skilled and productive labor force. Grants to State and local governments for this category are estimated to be \$77.3 billion in 2013, roughly 65 percent of the total. They include education programs for the disadvantaged and individuals with disabilities, training programs in the Department of Labor, Head Start, and other education programs. Grants for education and training rise from \$84.4 billion in 2011 to \$105.2 billion in 2012, largely due to one-time grants to States for elementary, secondary, and vocational education included in the Administration's temporary measures for jobs growth. Direct Federal education and training outlays are estimated to be \$41.1 billion in 2013, up from the levels in 2011 and 2012. Programs in this category primarily consist of aid for higher education through student financial assistance, loan subsidies, veterans' education, and health training programs. Downward re-estimates of student loan subsidies reduced net outlays for direct Federal education and training in 2011 and by lesser amounts in 2012, leading to an increase in this category in 2012 and 2013.

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

### **Miscellaneous Physical Investment**

In addition to the categories of major Federal investment, several miscellaneous categories of investment outlays are shown at the bottom of Table 21-1. These items, all for physical investment, are generally unrelated to improving Government operations or enhancing economic activity.



Outlays for commodity inventories are for the purchase or sale of agricultural products pursuant to farm price support programs and other commodities. Sales are estimated to exceed purchases by \$21 million in 2013.

Outlays for other miscellaneous physical investment are estimated to be \$2.9 billion in 2013. This category consists entirely of direct Federal outlays and includes primarily conservation programs.

### Detailed Table on Investment Spending

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

**Table 21–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS**

(In millions of dollars)

Description	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
<b>GRANTS TO STATE AND LOCAL GOVERNMENTS</b>						
Major public physical investment:						
Construction and rehabilitation:						
Transportation:						
Highways .....	38,426	40,949	41,710	44,323	41,691	43,827
Mass transportation .....	11,076	10,403	10,555	11,783	12,513	12,531
Rail transportation .....	-389	0	1,000	319	1,296	1,936
Air and other transportation .....	3,887	53,850	2,757	3,495	10,013	22,468
Subtotal, transportation .....	53,000	105,202	56,022	59,920	65,513	80,762
Other construction and rehabilitation:						
Pollution control and abatement .....	3,931	2,551	2,309	5,050	4,088	2,050
Community and regional development .....	5,587	19,742	3,983	9,945	10,899	12,974
Housing assistance .....	4,528	3,658	4,818	11,143	6,291	4,844
Other .....	4,120	3,999	4,425	8,627	7,404	5,294
Subtotal, other construction and rehabilitation .....	18,166	29,950	15,535	34,765	28,682	25,162
Subtotal, construction and rehabilitation .....	71,166	135,152	71,557	94,685	94,195	105,924
Other physical assets .....	1,565	1,572	1,615	1,861	2,258	2,416
Subtotal, major public physical investment .....	72,731	136,724	73,172	96,546	96,453	108,340
Conduct of research and development:						
Agriculture .....	324	325	320	315	432	338
Other .....	185	183	224	138	135	153
Subtotal, conduct of research and development .....	509	508	544	453	567	491
Conduct of education and training:						
Elementary, secondary, and vocational education .....	38,131	98,638	40,202	64,514	85,104	57,385
Higher education .....	337	331	1,336	520	538	463
Research and general education aids .....	744	744	763	832	991	828
Training and employment .....	3,788	3,949	3,999	4,059	3,846	4,344
Social services .....	10,896	11,321	11,119	11,891	11,988	11,378
Agriculture .....	404	405	403	361	577	613
Other .....	2,276	2,215	2,191	2,230	2,206	2,242
Subtotal, conduct of education and training .....	56,576	117,603	60,013	84,407	105,250	77,253
<b>Subtotal, grants for investment .....</b>	<b>129,816</b>	<b>254,835</b>	<b>133,729</b>	<b>181,406</b>	<b>202,270</b>	<b>186,084</b>
<b>DIRECT FEDERAL PROGRAMS</b>						
Major public physical investment:						
Construction and rehabilitation:						
National defense:						
Military construction and family housing .....	13,504	11,060	8,882	12,885	15,247	17,691
Atomic energy defense activities and other .....	49	79	86	69	87	63
Subtotal, national defense .....	13,553	11,139	8,968	12,954	15,334	17,754
Nondefense:						
International affairs .....	869	894	752	271	681	599
General science, space, and technology .....	850	895	974	873	745	938

**Table 21-2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued**  
(In millions of dollars)

Description	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
Water resources projects .....	3,076	2,855	2,595	5,375	5,179	4,083
Other natural resources and environment .....	1,234	1,136	1,053	2,118	1,438	1,346
Energy .....	7,178	9,212	5,034	8,521	14,957	5,983
Postal service .....	520	343	574	598	481	519
Transportation .....	221	567	178	325	710	281
Veterans hospitals and other health facilities .....	5,732	2,730	2,696	4,542	3,609	2,817
Administration of justice .....	671	646	513	1,072	949	717
GSA real property activities .....	403	330	551	3,099	2,459	1,760
Other construction .....	4,211	11,968	1,748	5,773	3,052	2,336
Subtotal, nondefense .....	24,965	31,576	16,668	32,567	34,260	21,379
Subtotal, construction and rehabilitation .....	38,518	42,715	25,636	45,521	49,594	39,133
Acquisition of major equipment:						
National defense:						
Department of Defense .....	132,026	120,591	108,662	128,154	139,895	124,679
Atomic energy defense activities .....	526	574	614	470	510	546
Subtotal, national defense .....	132,552	121,165	109,276	128,624	140,405	125,225
Nondefense:						
General science and basic research .....	668	771	771	904	980	877
Space flight, research, and supporting activities .....	152	152	147	139	152	148
Postal service .....	306	522	1,397	573	586	912
Air transportation .....	3,594	4,178	4,265	3,510	3,902	3,965
Water transportation (Coast Guard) .....	1,374	1,243	1,103	1,101	1,647	1,876
Other transportation (railroads) .....	1,484	1,418	1,546	1,862	1,456	1,089
Hospital and medical care for veterans .....	1,411	1,676	1,817	1,099	1,481	1,533
Federal law enforcement activities .....	1,144	1,039	958	1,304	1,342	1,227
Department of the Treasury (fiscal operations) .....	278	330	337	322	373	392
National Oceanic and Atmospheric Administration .....	1,335	1,818	1,977	1,320	1,301	1,534
Other .....	3,689	3,762	4,511	4,465	4,536	4,786
Subtotal, nondefense .....	15,435	16,909	18,829	16,599	17,756	18,339
Subtotal, acquisition of major equipment .....	147,987	138,074	128,105	145,223	158,161	143,564
Purchase or sale of land and structures:						
National defense .....	-9	-26	-17	-18	46	0
Natural resources and environment .....	221	257	321	281	292	316
General government .....	113	127	120	130	128	120
Other .....	-451	1,809	-247	-506	-56	78
Subtotal, purchase or sale of land and structures .....	-126	2,167	177	-113	410	514
Subtotal, major public physical investment .....	186,379	182,956	153,918	190,631	208,165	183,211
Conduct of research and development:						
National defense:						
Defense military .....	77,410	72,634	71,129	75,576	76,623	73,248
Atomic energy and other .....	3,922	4,084	4,486	4,099	4,183	4,330
Subtotal, national defense .....	81,332	76,718	75,615	79,675	80,806	77,578
Nondefense:						
International affairs .....	196	196	196	185	184	183
General science, space, and technology:						
NASA .....	8,397	8,643	8,885	7,825	8,524	8,696
National Science Foundation .....	5,091	5,228	5,446	5,233	6,031	5,273
Department of Energy .....	3,899	3,839	4,010	4,042	4,012	4,069
Subtotal, general science, space, and technology .....	17,387	17,710	18,341	17,100	18,567	18,038
Energy .....	2,246	2,382	2,718	3,679	4,363	3,593
Transportation:						
Department of Transportation .....	777	779	871	766	777	709
NASA .....	442	473	467	498	462	467
Other transportation .....	24	28	20	20	18	24
Subtotal, transportation .....	1,243	1,280	1,358	1,284	1,257	1,200

**Table 21–2. FEDERAL INVESTMENT BUDGET AUTHORITY AND OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS—Continued**  
(In millions of dollars)

Description	Budget Authority			Outlays		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
<b>Health:</b>						
National Institutes of Health .....	29,773	29,913	29,919	33,249	30,591	29,617
Other health .....	1,139	1,120	1,535	1,264	1,709	1,495
Subtotal, health .....	30,912	31,033	31,454	34,513	32,300	31,112
Agriculture .....	1,592	1,550	1,558	1,618	1,813	1,690
Natural resources and environment .....	2,197	2,115	2,158	1,862	1,930	1,940
National Institute of Standards and Technology .....	437	475	1,386	545	573	682
Hospital and medical care for veterans .....	1,160	1,164	1,166	1,138	1,145	1,146
All other research and development .....	1,565	1,313	1,640	1,573	1,507	1,517
Subtotal, nondefense .....	58,935	59,218	61,975	63,497	63,639	61,101
Subtotal, conduct of research and development .....	140,267	135,936	137,590	143,172	144,445	138,679
<b>Conduct of education and training:</b>						
Elementary, secondary, and vocational education .....	1,343	1,398	1,228	1,516	1,827	1,606
Higher education .....	5,781	19,245	16,982	1,019	13,082	16,473
Research and general education aids .....	2,202	2,100	2,170	2,218	2,135	2,050
Training and employment .....	2,090	2,725	2,106	2,511	2,669	2,534
Health .....	1,854	1,531	1,261	1,768	1,556	1,488
Veterans education, training, and rehabilitation .....	10,825	12,574	13,090	11,112	12,571	14,211
General science and basic research .....	929	916	1,023	891	1,065	1,108
International affairs .....	656	620	608	671	799	674
Other .....	888	899	775	990	1,111	969
Subtotal, conduct of education and training .....	26,568	42,008	39,243	22,696	36,815	41,113
<b>Subtotal, direct Federal investment .....</b>	<b>353,214</b>	<b>360,900</b>	<b>330,751</b>	<b>356,499</b>	<b>389,425</b>	<b>363,003</b>
<b>Total, Federal investment .....</b>	<b>483,030</b>	<b>615,735</b>	<b>464,480</b>	<b>537,905</b>	<b>591,695</b>	<b>549,087</b>

## PART II: FEDERALLY FINANCED CAPITAL STOCKS

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

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

Federal spending for the conduct of R&D adds to an “intangible” asset, the Nation’s stock of knowledge. Spending for education adds to the stock of human capital by providing skills that help make people more productive. Although financed by the Federal Government, R&D or education can be carried out by Federal or State government laboratories, universities and other nonprofit organizations, local governments, or private industry. R&D covers a wide range of activities, from the investigation of subatomic particles to the exploration of new frontiers of science; it can be “basic” research without particular

applications in mind, or it can have a highly specific practical use. Similarly, education includes a wide variety of programs, assisting people of all ages beginning with preschool education and extending through graduate studies and adult education. Like physical assets, the capital stocks of R&D and education provide services over a number of years and depreciate as they become outdated.

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

cult to apply to assets that do not have a private market, such as highways or weapons systems.

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

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

### The Stock of Physical Capital

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

*Trends.* Table 21-3 shows the value of the net federally financed physical capital stock since 1960, in constant fiscal year 2005 dollars. The total stock grew at a 2.4 percent average annual rate from 1960 to 2011, with periods of faster growth during the late 1960s, the 1980s, as well as presently since the mid-2000s. The stock amounted to \$3,054 billion in 2011 and is estimated to increase to \$3,235 billion by 2013. In 2011, the national defense capi-

tal stock accounted for \$925 billion, or 30 percent of the total, and nondefense stocks for \$2,129 billion, or 70 percent of the total.

Real stocks of defense and nondefense capital show very different trends. Nondefense stocks have grown consistently since 1970, increasing from \$531 billion in 1970 to \$2,129 billion in 2011. With the investments proposed in the Budget, nondefense stocks are estimated to grow to \$2,256 billion in 2013. From 1970-1979, the nondefense capital stock grew at an average annual rate of 4.4 percent. Over the 1980s, however, the growth rate slowed to 3.0 percent annually, with growth continuing at about that rate since then.

Real national defense stocks began in 1970 at a relatively high level, and declined steadily throughout the decade as depreciation from investment during the Vietnam War exceeded new investment in military construction and weapons procurement. Starting in the early 1980s, a large defense buildup began to increase the stock of defense capital. By 1987, the defense stock exceeded its earlier Vietnam-era peak. By 1993, however, depreciation on the increased stocks and a slower pace of defense physical capital investment began to reduce the stock from its previous levels. The increased defense investment in the last few years has reversed this decline, increasing the stock from a low of \$639 billion in 2001 to \$979 billion in 2013.

Another trend in the Federal physical capital stocks is the shift from direct Federal assets to grant-financed assets. In 1960, 37 percent of federally financed nondefense capital was owned by the Federal Government, and 63 percent was owned by State and local governments but financed by Federal grants. Expansion in Federal grants

**Table 21-3. NET STOCK OF FEDERALLY FINANCED PHYSICAL CAPITAL**

(In billions of 2005 dollars)

Fiscal Year	Total	National Defense	Total Nondefense	Direct Federal Capital			Capital Financed by Federal Grants				
				Total	Water and Power	Other	Total	Transportation	Community and Regional	Natural Resources	Other
Five year intervals:											
1960 .....	890	620	270	99	62	37	171	104	31	24	12
1965 .....	993	602	391	128	77	51	263	185	38	26	15
1970 .....	1,182	651	531	152	92	60	379	269	55	31	24
1975 .....	1,225	554	671	173	106	67	498	330	89	49	30
1980 .....	1,334	476	858	200	126	74	658	396	140	91	31
1985 .....	1,584	580	1,004	229	140	89	775	460	169	116	30
1990 .....	1,904	754	1,150	265	151	114	885	537	184	131	33
1995 .....	2,060	740	1,320	307	161	146	1,013	621	195	143	53
2000 .....	2,164	643	1,522	349	165	184	1,173	720	213	152	88
Annual data:											
2005 .....	2,483	695	1,788	414	173	241	1,373	860	230	160	123
2006 .....	2,552	719	1,833	425	174	250	1,408	887	233	161	128
2007 .....	2,629	749	1,880	435	175	260	1,444	911	239	162	133
2008 .....	2,718	790	1,928	449	177	272	1,479	935	244	163	137
2009 .....	2,824	839	1,986	474	180	294	1,512	960	246	163	142
2010 .....	2,947	889	2,058	499	187	312	1,559	990	250	166	153
2011 .....	3,054	925	2,129	523	193	329	1,606	1,017	254	169	165
2012 est. ....	3,156	960	2,196	547	203	344	1,649	1,047	259	171	173
2013 est. ....	3,235	979	2,256	558	207	351	1,698	1,085	264	171	177



**Table 21-4. NET STOCK OF FEDERALLY FINANCED RESEARCH AND DEVELOPMENT<sup>1</sup>**

(In billions of 2005 dollars)

Fiscal Year	National Defense			Nondefense			Total Federal		
	Total	Basic Research	Applied Research and Development	Total	Basic Research	Applied Research and Development	Total	Basic Research	Applied Research and Development
Five year intervals:									
1970 .....	294	18	276	242	75	166	535	93	443
1975 .....	311	23	288	296	109	186	607	133	474
1980 .....	315	28	287	350	148	202	665	176	489
1985 .....	362	34	328	382	196	186	743	230	513
1990 .....	454	41	413	431	258	173	884	298	586
1995 .....	476	48	428	519	331	188	995	379	616
2000 .....	484	55	429	611	414	197	1,095	469	626
Annual data:									
2005 .....	543	63	480	747	531	217	1,291	594	697
2006 .....	561	64	496	773	554	219	1,334	618	716
2007 .....	579	66	513	798	577	221	1,377	642	734
2008 .....	594	67	527	822	600	223	1,416	667	749
2009 .....	605	69	536	851	626	226	1,456	694	762
2010 .....	615	70	545	883	652	232	1,499	722	777
2011 .....	623	72	551	913	677	236	1,536	749	787
2012 est. ....	631	74	557	941	702	239	1,572	775	796
2013 est. ....	634	75	559	966	725	241	1,600	800	800

<sup>1</sup> Excludes stock of physical capital for research and development, which is included in Table 21-3.

for highways and other State and local capital, coupled with slower growth in direct Federal investment for water resources, for example, shifted the composition of the stock substantially. In 2011, 25 percent of the federally financed nondefense stock was owned by the Federal Government and 75 percent by State and local governments.

The growth in the stock of physical capital financed by grants has come in several areas. The growth in the stock for transportation is largely grants for highways, including the Interstate Highway System. The growth in community and regional development stocks occurred largely following the enactment of the Community Development Block Grant in the early 1970s. The value of this capital stock has grown only slowly in the past few years. The growth in the natural resources area occurred primarily because of construction grants for water infrastructure projects. The value of the stock of grants for physical capital that are federally financed has increased by over twofold since the mid-1980s.

### The Stock of Research and Development Capital

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

*Trends.* As shown in Table 21-4, the R&D capital stock financed by Federal outlays is estimated to be \$1,536 billion in 2011 in constant 2005 dollars. Roughly half is the stock of basic research knowledge; the remainder is the stock of applied research and development.

The nondefense stock accounted for about three-fifths of the total federally financed R&D stock in 2011. Although investment in defense R&D has exceeded that of nondefense R&D in nearly every year since 1981, the nondefense R&D stock is actually the larger of the two, because of the different emphasis on basic research and applied research and development. Defense R&D spending is heavily concentrated in applied research and development, which depreciates much more quickly than basic research. The stock of applied research and development is assumed to depreciate at a ten percent geometric rate, while basic research is assumed not to depreciate at all.

The defense R&D stock rose slowly during the 1970s, as gross outlays for R&D trended down in constant dollars and the stock created in the 1960s depreciated. Increased defense R&D spending from 1980 through 1990 led to a more rapid growth of the R&D stock. Subsequently, real defense R&D outlays tapered off, depreciation grew, and, as a result, the real net defense R&D stock stabilized at around \$475 billion. Renewed spending for defense R&D in recent years has begun to increase the stock, and it is projected to increase to \$634 billion in 2013.

The growth of the nondefense R&D stock slowed from the 1970s to the 1980s, from an annual rate of 3.4 percent in the 1970s to a rate of 1.9 percent in the 1980s. Gross investment in real terms fell during the early 1980s, and about three-fourths of new outlays went to replacing depreciated R&D. Since 1988, however, nondefense R&D outlays have been on an upward trend while depreciation has edged down. As a result, the net nondefense R&D capital stock has grown more rapidly.

### The Stock of Education Capital

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

As shown in Table 21-5, the federally financed education stock is estimated at \$2,051 billion in 2011 in constant 2005 dollars. The vast majority of the Nation's education stock is financed by State and local governments, and by students and their families themselves. This federally fi-

nanced portion of the stock represents about 3.5 percent of the Nation's total education stock. About three-quarters is for elementary and secondary education, while the remainder is for higher education.

The federally financed education stock has grown steadily in the last few decades, with an average annual growth rate of 5.1 percent from 1970 to 2011. The expansion of the education stock is projected to continue under this budget, with the stock rising to \$2,275 billion in 2013.

**Table 21-5. NET STOCK OF FEDERALLY FINANCED EDUCATION CAPITAL**  
(In billions of 2005 dollars)

Fiscal Year	Total Education Stock	Elementary and Secondary Education	Higher Education
Five year intervals:			
1960 .....	81	58	22
1965 .....	116	84	32
1970 .....	266	209	57
1975 .....	397	321	76
1980 .....	548	431	118
1985 .....	656	493	163
1990 .....	833	620	213
1995 .....	997	727	269
2000 .....	1,286	937	349
Annual data:			
2005 .....	1,543	1,126	416
2006 .....	1,637	1,179	458
2007 .....	1,736	1,250	486
2008 .....	1,842	1,332	509
2009 .....	1,901	1,397	504
2010 .....	1,964	1,465	499
2011 .....	2,051	1,533	518
2012 est. ....	2,172	1,630	542
2013 est. ....	2,275	1,709	566



## 22. RESEARCH AND DEVELOPMENT

The President is focused on expanding near-term economic growth and job creation, while at the same time strengthening our economy for long-term resilience and prosperity. In order to be globally competitive in the 21st Century and to create an economy that is built to last, we must not only put this Nation on a sustainable fiscal path, as this Budget does, but we must also create an environment where invention, innovation, and industry can flourish. That starts with continuing investment in the basic research, science, and technology from which new products, new businesses, and even new industries are formed. Scientific discovery, technological breakthroughs, and innovation are major engines for expanding the frontiers of human knowledge and are indispensable for promoting sustainable economic growth, moving toward a clean energy future, improving the health of the population, addressing global climate change challenges, managing competing demands on the environment, and safeguarding our national security.

The President's 2013 Budget provides \$141 billion for Federal research and development (R&D), including the conduct of R&D and investments in R&D facilities and equipment. Even in the current highly constrained budget environment, the Administration continues to champion R&D, providing a 1 percent funding increase over 2012 levels for all R&D, and an increase of 5 percent for non-defense R&D. This investment reinforces the Administration's commitment to science, technology,

and innovation that will help the country make progress toward increasing U.S. productivity and competitiveness, and underpin the industries and jobs of the future. In conjunction with this investment, the 2013 Budget's proposed expanded, simplified, and permanent extension of the Research and Experimentation tax credit will spur private investment in R&D by providing certainty that the credit will be available for the duration of the R&D investment.

The 2013 Budget continues to strengthen U.S. international leadership by investing in the 21st century's high-tech knowledge-based economy, including advanced manufacturing that will enable us to lead the world in clean energy, agriculture, and healthcare while protecting the environment for future generations. The Budget will help ensure that the U.S. continues its long-standing and overwhelming leadership in public and private sector R&D and maintains the high quality of our R&D institutions and entrepreneurial nature of our R&D enterprise.

As required by the America COMPETES Act of 2007, the Budget's priorities generally align with the conclusions of the report from the National Science and Technology Summit held in August 2008. In January 2011, the President signed into law the America COMPETES Reauthorization Act of 2010, reauthorizing various programs intended to strengthen research and education in the U.S. related to science, technology, engineering, and mathematics.

### I. PRIORITIES FOR FEDERAL RESEARCH AND DEVELOPMENT<sup>1</sup>

The Budget provides support for a wide spectrum of research and development, including multidisciplinary research and promising exploratory and high-risk research proposals that could fundamentally improve our understanding of nature, revolutionize fields of science, and lead to radically new technologies. The Budget will fund key programs to improve our productivity and to create new technologies that can meet our Nation's needs better, cheaper, and with fewer environmental consequences.

#### **Promoting Sustainable Economic Growth and Job Creation**

The Administration recognizes the Government's role in fostering scientific and technological breakthroughs, and has committed significant resources to ensure America leads the world in the innovations of the future. The Budget provides \$64 billion for basic and applied re-

search, targeting 3 percent growth over the 2012 levels because such research is a reliable source of new knowledge to drive job creation and lasting economic growth.

The President's 2013 Budget maintains his commitment to double Federal investment in key basic research agencies: the National Science Foundation (NSF), the Department of Energy (DOE) Office of Science, and the laboratories of the Department of Commerce (DOC) National Institute of Standards and Technology (NIST), as called for in the America COMPETES Act of 2010. The Budget proposes \$13.1 billion in 2013 for these three agencies, an increase of \$0.6 billion (4.4 percent) over 2012 funding. Priorities for 2013 include: core research programs, sustainability, and wireless communications at NSF; basic energy sciences, frontier research activities, and innovative materials at DOE; and advanced manufacturing and cybersecurity at NIST. Many of the basic research efforts at these agencies contribute to Administration priorities in advanced manufacturing, clean energy, global climate change, and math and science education.

Private sector R&D investments remain essential to foster innovation as they provide a much wider range of

<sup>1</sup>Note that some numbers in the text include non-R&D activities and thus will be different from the R&D numbers reflected in Table 22-1.



technology options than the Government alone can provide and play a critical role in translating scientific discoveries into commercially successful, innovative products and services. In order to provide businesses with greater confidence to invest, innovate, and grow, the Budget proposes to simplify and expand the Research and Experimentation tax credit, and make it permanent.

### **Moving Toward a Clean Energy Future**

The Administration intends for the United States to lead the world in research, development, demonstration, and deployment of clean-energy technology to reduce dependence on oil and other energy imports and to mitigate the impact of climate change while creating high-paying, high-skilled clean energy jobs and new businesses. The Budget reflects the Administration's comprehensive strategy on clean energy, which starts with basic and applied research to address some of the fundamental unknowns to advancing clean energy technologies, such as developing advanced light-weight, ultra-strong materials; followed by research and development to create clean energy products, like solar panels, batteries and electric vehicles, wind turbines, and modular nuclear reactors; and then providing appropriate assistance to American entrepreneurs to commercialize the technologies that will lead the world in new clean energy technology.

We will dedicate nearly \$6.7 billion to clean energy research, development, demonstration, and deployment government-wide to accelerate the transition to a low-carbon economy and position the United States as the world leader in clean energy technology. This increase of about \$760 million is 13 percent above the 2012 enacted level. The Department of Energy will invest an additional \$580 million, or 13 percent above 2012 levels, to advance the state of the art in clean energy technologies such as industrial and building energy efficiency, next generation biofuels, and renewable electricity generation from solar, wind, and geothermal resources.

Specifically, the 2013 Budget provides a total of \$1.2 billion for energy efficiency activities at the Department of Energy, including initiatives to improve the energy productivity of our industries, vehicles, and buildings, with a focus on improving clean-vehicle technologies and advanced manufacturing materials and processes. It sustains crucial support for renewable electricity research, development, and demonstration (RD&D) activities, including: \$310 million for the SunShot Initiative to make solar energy cost-competitive without subsidies across the nation by the end of the decade; \$95 million for wind energy, including off-shore wind technologies; and \$65 million for geothermal energy and enhanced geothermal systems. It also includes \$770 million to support nuclear energy, including research and development in areas of fuel cycle and reactor technologies, and \$276 million for an R&D portfolio of carbon capture and storage technologies and advanced coal-fueled power systems that reduce the carbon emission intensity of fossil fuel-based power systems. The Budget includes funding to maintain and expand new models of energy research pioneered

in the last several years, including \$350 million for the Advanced Research Projects Agency-Energy (ARPA-E), a program that seeks to fund transformational energy R&D. The Budget also proposes \$292 million in the U.S. Department of Agriculture and \$493 million at the U.S. Department of Energy for bioenergy RD&D including development of next-generation biofuels like cellulosic and algae-based biofuels that displace oil consumption and reduce greenhouse gas emissions.

### **Defeating Dangerous Diseases and Achieving Better Health Outcomes**

The Administration is committed to funding Federal R&D investments in biomedical and health research and supporting policies to improve health. The 2013 Budget strongly supports research that has the potential to accelerate the pace of discovery in the life sciences, especially imaging, bioinformatics, and high-throughput biology, that also has the potential to support the bioeconomy of the future.

The 2013 Budget proposes \$30.7 billion for the National Institutes of Health (NIH) to support high-quality, innovative biomedical research both on-campus and at research institutions across the country. Through implementation of the National Center for Advancing Translational Sciences and the Cures Acceleration Network, NIH will increase its focus on bridging the translational divide between basic science and therapeutic applications. To get the most from these investments, NIH will increase its focus on reducing barriers along the path to clinical trials, which will facilitate the development of new therapeutics to treat diseases and disorders that affect millions of Americans. NIH will implement new grants management policies to increase the number of new research grants awarded and continue focusing resources on new investigators.

The Budget includes approximately \$312 million in mandatory R&D funding for the independent Patient-Centered Outcomes Research Institute (PCORI) to conduct clinical comparative effectiveness research, as authorized by the Affordable Care Act. PCORI and the Department of Health and Human Services receive funding from the Patient-Centered Outcomes Research Trust Fund, which will begin to receive increased collections in 2013.

The Budget also proposes more than \$1 billion for medical and prosthetic research across the Department of Veterans Affairs.

### **Understanding Global Climate Change and Its Impacts**

The U.S. Global Change Research Program (USGCRP) integrates Federal research and solutions for climate and global change. Within coordinated USGCRP interagency investments under a new strategic plan, the 2013 Budget supports an integrated and continuing National Climate Assessment of climate change science, impacts, vulnerabilities, and response strategies. The 2013 Budget provides \$2.6 billion for USGCRP programs.

## Stewardship of Natural Resources

Sustainable stewardship of natural resources requires strong investments in research and development in the natural sciences. The 2013 Budget provides \$2.6 billion in R&D funding for environmental stewardship at the Department of the Interior (DOI), Environmental Protection Agency (EPA), National Oceanic and Atmospheric Administration (NOAA), and Department of Agriculture (USDA). Highlights include new spending and coordination between DOE, EPA, and the DOI's U.S. Geological Survey to understand and address potential impacts of natural gas development using hydraulic fracturing which, with appropriate safeguards, can provide an important domestic supply of energy and stimulate economic development. The Budget provides strong support for R&D related to the management of ecosystems, invasive species, public lands, and water. The Budget also provides strong scientific support for the National Ocean Policy with investments in marine sensor technology, oceanographic observations, expanded fisheries science and stock assessments, and understanding coastal issues such as harmful algal blooms and rising sea levels. The Budget strengthens investments in the safety and security of the Nation through research and development related to hazards such as earthquakes, floods, and extreme weather. USDA direct spending for environmental R&D supports improvements in water quantity and quality, sustainable agricultural production, and climate change adaptation.

## Science and Technology for Security

Federal R&D investments in security assure that we have the technologies needed to protect our troops, citizens, and National interests against current and emerging threats, including technologies needed to verify arms control and nonproliferation agreements essential to our security and to the security of cyberspace. R&D investments made in the 2013 Budget for Security focus on those areas deemed to have the greatest payoff for warfighting success in the future. The 2013 Budget provides \$71 billion for Department of Defense (DOD) R&D, including construction of military R&D facilities, a decrease of \$1.5 billion from the 2012 enacted level, mostly due to reductions in development activities as programs mature and transition to production.

The 2013 Budget sustains DOD's critical role in fostering technological advances in support of U.S. military forces with \$2.8 billion for the Defense Advanced Research Projects Agency (DARPA) for its support of longer-term breakthrough research.

The Budget proposes \$6.6 billion for DOD basic and applied research divided among the military services, DARPA and other DOD agencies. In this way, the Budget maintains scientific and technological preeminence for our Armed Forces.

The Budget invests in the technological capabilities necessary to monitor nuclear nonproliferation compliance and to prevent weapons of mass destruction from entering the country. The Budget proposes \$548 million for DOE's nonproliferation and verification R&D portfolio.

The Budget increases investments to develop state-of-the-art technologies and solutions for Federal, State, and local homeland security operators. The Budget proposes \$831 million to restore funding to Department of Homeland Security R&D programs that protect the Nation's people and critical infrastructure from chemical, biological, and cyber attacks.

Responding to the President's Council of Advisors on Science and Technology (PCAST) 2011 report, "Ensuring American Leadership in Advanced Manufacturing", the 2013 Budget invests in DOD capabilities which control weapon system costs and ensure that the defense industrial base is innovative and responsive to warfighter needs.

## Strengthening Key Cross-cutting Areas

In order to address these priorities effectively, the Administration recognizes the need to strengthen key cross-cutting areas.

**Science, technology, engineering, and mathematics (STEM) education:** Students need to master science, technology, engineering, and mathematics (STEM) in order to thrive in the 21st Century economy. Steadily, we have seen other nations eclipse ours in preparing their children in these critical fields. That is why the President is committed to strengthening STEM education, from elementary school to post-graduate education to lifelong learning. Over the past year, the National Science and Technology Council's (NSTC) new Committee on STEM Education (CoSTEM) has conducted a comprehensive inventory of Federal STEM education programs as the foundation for a forthcoming 5-year Federal STEM Education Strategic Plan. The 2013 Budget invests \$3.0 billion in STEM education programs throughout the Federal government.

The Budget emphasizes support for researchers at the beginning of their careers to sustain and expand the Nation's scientific and technical workforce, including \$243 million for NSF's Graduate Research Fellowship Program to support 4,900 fellows in 2013.

The Budget also proposes significant investments in STEM education at the Department of Education. Through the reauthorization of the Elementary and Secondary Education Act, the Administration is seeking to create the Effective Teaching and Learning: STEM program, which would support State and local efforts to implement a comprehensive strategy for the provision of high-quality STEM instruction to students from pre-K-12. In conjunction with its investment in the Effective Teaching and Learning: STEM program, the Budget dedicates an additional \$30 million to the Fund for the Improvement of Education for an evidence-based mathematics initiative to be jointly administered with a comparable \$30 million effort at NSF. The Budget also invests \$80 million in the Department of Education for preparing 100,000 effective STEM teachers over the next decade, as announced in the 2011 State of the Union address and reserves a portion of funds within the Investing in Innovation program to support the Advanced Research Projects Agency-Education

(ARPA-ED) to promote breakthrough innovations in educational technologies.

**Advanced Manufacturing:** In June 2011, the President launched the Advanced Manufacturing Partnership (AMP), a national effort that brings together industry, universities and the Federal government to invest in emerging technologies that will create high-quality manufacturing jobs and enhance our global competitiveness. The 2013 Budget provides \$2.2 billion for Federal advanced manufacturing R&D at NSF, DOD, DOE, DOC, and other agencies. For example, the Budget provides DOE with \$290 million to expand R&D on innovative manufacturing processes and advanced industrial materials that will enable U.S. companies to cut the costs of manufacturing by using less energy, while improving quality and accelerating product development. The Administration also provides additional funding at DOC NIST to enhance the competitiveness of U.S. manufacturing by promoting development of new manufacturing technologies with broad applications. In addition, as part of the broader effort, the Budget invests in the National Robotics Initiative (NRI) to develop robots that work with or beside people to extend or augment human capabilities because, in addition to having applications in space, biology, and security, robots have the potential to increase the productivity of workers in the manufacturing sector. Another important component of the advanced manufacturing R&D agenda is the Materials Genome Initiative: in the same way that the Human Genome Project accelerated a range of biological sciences by identifying and deciphering human genetic code, this initiative will speed our understanding of the fundamentals of materials science, providing a wealth of practical information that entrepreneurs and innovators will be able to use to develop new products and processes for U.S. firms.

**Aerospace capabilities:** The Budget provides \$17.7 billion for the National Aeronautics and Space Administration (NASA) to support NASA's efforts to drive innovation through the aerospace sector by increasing funding for space technology programs that will enhance

our capabilities in space. Such capabilities are essential for communications, geopositioning, intelligence gathering, Earth observation, and national defense. As part of these efforts, NASA will embark on technology development and test programs aimed at increasing these capabilities and reducing the cost of NASA, other government, and U.S. commercial space activities. NASA will also support innovative fundamental research and systems-level applications to reduce fuel needs, noise, and emissions of aircraft. Within NASA, the Budget provides \$1.8 billion for Earth Science to sustain progress toward important satellite missions and research to advance climate science and to sustain vital space-based Earth observations. The Budget also provides \$1.8 billion for NOAA to fund development of the next generation of polar-orbiting and geostationary satellite systems, as well as satellite-borne measurements of sea level and potentially damaging solar storms, which are critical to weather forecasting and climate monitoring.

**Infrastructure:** The Administration places a high priority on improving and protecting our information, communication, and transportation infrastructure, which is essential to our commerce, science, and security alike. As part of the National Wireless Initiative included in the American Jobs Act, NIST will create a Wireless Innovation (WIN) Fund to help develop cutting-edge wireless technologies for public safety users. The WIN Fund will provide up to \$300 million from spectrum auction proceeds to help industry and public safety organizations conduct research and develop new standards, technologies and applications to advance public safety communications in support of the initiative's efforts to build an interoperable nationwide broadband network for first responders.

As part of the Administration's surface transportation reauthorization, the Budget provides additional funding within the Department of Transportation (DOT) for highway research, technology deployment, and vehicle safety activities aimed at addressing current and emerging needs facing our nation's transportation system.

## II. FEDERAL R&D DATA

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

### Federal R&D Funding

More than 20 Federal agencies fund R&D in the United States. The nature of the R&D that these agencies fund depends on the mission of each agency and on the role of R&D in accomplishing it. Table 22-1 shows agency-by-agency spending on basic and applied research, development, and R&D equipment and facilities.

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

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

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

**Research and development equipment** includes acquisition or design and production of movable equipment, such as spectrometers, research satellites, detectors, and



other instruments. At a minimum, this category should include programs devoted to the purchase or construction of R&D equipment.

**Research and development facilities** include the acquisition, design, and construction of, or major repairs or alterations to, all physical facilities for use in R&D ac-

tivities. Facilities include land, buildings, and fixed capital equipment, regardless of whether the facilities are to be used by the Government or by a private organization, and regardless of where title to the property may rest. This category includes such fixed facilities as reactors, wind tunnels, and particle accelerators.

### III. MULTI-AGENCY R&D ACTIVITIES

Many research investments into the most promising areas for future industry and job creation are being addressed through multi-agency research activities coordinated through the National Science and Technology Council (NSTC) and other interagency forums. Most of these challenges simply cannot be addressed effectively by a single agency. Moreover, innovation often arises from combining the tools, techniques, and insights from multiple agencies. Details of three such interagency efforts – networking and information technology R&D, nanotechnology R&D, and climate change R&D – are described below.

**Networking and Information Technology R&D:** The multi-agency Networking and Information Technology Research and Development (NITRD) Program provides strategic planning for and coordination of agency research efforts in cyber security, high-end computing systems, advanced networking, software development, high-confidence systems, health IT, wireless spectrum sharing, cloud computing, and other information technologies.

The 2013 Budget includes a focus on research to improve our ability to derive value and scientific inferences from unprecedented quantities of data, and continues to emphasize foundations for assured computing and secure hardware, software, and network design and engineering to address the goal of making Internet communications more secure and reliable. Budget information for NITRD is available at [www.nitrd.gov](http://www.nitrd.gov).

**Nanotechnology R&D:** To accelerate nanotechnology development in support of the President's priorities and innovation strategy, the National Nanotechnology Initiative (NNI) member agencies focus on R&D of materials, devices, and systems that exploit the unique physical, chemical, and biological properties that emerge in materials at the nanoscale (approximately 1 to 100 nanometers). Participating agencies continue to support fundamental research for nanotechnology-based innovation, technology transfer, and nanomanufacturing through individual investigator awards; multidisciplinary centers of excellence; education and training; and infrastructure

and standards development, including openly-accessible user facilities and networks. Furthermore, agencies have identified and are pursuing Nanotechnology Signature Initiatives in the national priority areas of nanomanufacturing, solar energy, and nanoelectronics through close alignment of existing and planned research programs, public-private partnerships, and research roadmaps (for details see [nano.gov/initiatives/government/signature](http://nano.gov/initiatives/government/signature)).

The NNI agencies are guided by two strategic documents developed by the Nanoscale Science, Engineering, and Technology Subcommittee of the National Science and Technology Council. The 2011 NNI Strategic Plan aligns nanoscale science and technology research with the NNI's four goals and includes specific, measurable objectives for each goal ([nano.gov/node/581](http://nano.gov/node/581)). The 2011 NNI Environmental, Health, and Safety Research Strategy ([nano.gov/node/681](http://nano.gov/node/681)) delineates a research and implementation framework that will produce the information necessary to protect public health and the environment, foster product development and commercialization, and consider the ethical, legal, and societal issues associated with technology development. Budget information is available at [nano.gov](http://nano.gov).

**Climate Change R&D:** The U.S. Global Change Research Program (USGCRP) integrates and coordinates Federal research and applications to assist the nation and the world to understand, assess, predict, and respond to human-induced and natural processes of global change. The 2013 Budget supports the goals set forth in the program's new decadal strategic plan, which include: advance scientific knowledge of the integrated natural and human components of the Earth system; provide the scientific basis to inform and enable timely decisions on adaptation and mitigation; build sustained assessment capacity that improves the United States' ability to understand, anticipate, and respond to global change impacts and vulnerabilities; and advance communications and education to broaden public understanding of global change. Reports and general information about the USGCRP are available on the program's website, [www.globalchange.gov](http://www.globalchange.gov).



**Table 22-1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING**  
(Budget authority, dollar amounts in millions)

	2011 Actual	2012 Estimate	2013 Proposed	Dollar Change: 2013 to 2012	Percent Change: 2013 to 2012
<b>By Agency</b>					
Defense .....	77,500	72,739	71,204	-1,535	-2%
Health and Human Services .....	31,186	31,153	31,400	247	1%
Energy .....	10,673	11,019	11,903	884	8%
NASA .....	9,099	9,399	9,602	203	2%
National Science Foundation .....	5,486	5,680	5,904	224	4%
Commerce .....	1,275	1,258	2,573	1,315	105%
Agriculture .....	2,135	2,331	2,297	-34	-1%
Veterans Affairs .....	1,160	1,164	1,166	2	0%
Transportation .....	953	944	1,076	132	14%
Interior .....	757	796	854	58	7%
Homeland Security .....	664	577	729	152	26%
Environmental Protection Agency .....	584	568	580	12	2%
Education .....	362	392	398	6	2%
Patient-Centered Outcomes Research Trust Fund .....	40	120	312	192	160%
Smithsonian Institution .....	259	243	243	0	0%
Other .....	581	486	579	93	19%
<b>TOTAL .....</b>	<b>142,714</b>	<b>138,869</b>	<b>140,820</b>	<b>1,951</b>	<b>1%</b>
<b>Basic Research</b>					
Defense .....	1,877	2,111	2,116	5	0%
Health and Human Services .....	16,013	16,051	16,010	-41	-0%
Energy .....	3,979	3,918	4,096	178	5%
NASA .....	1,197	1,342	1,379	37	3%
National Science Foundation .....	4,636	4,778	4,987	209	4%
Commerce .....	154	166	193	27	16%
Agriculture .....	933	929	904	-25	-3%
Veterans Affairs .....	438	444	446	2	0%
Transportation .....	.....	.....	.....	.....	.....
Interior .....	49	56	61	5	9%
Homeland Security .....	97	71	113	42	59%
Environmental Protection Agency .....	90	85	86	1	1%
Education .....	6	6	6	0	0%
Patient-Centered Outcomes Research Trust Fund .....	.....	.....	.....	.....	.....
Smithsonian Institution .....	201	202	207	5	2%
Other .....	27	19	23	4	21%
<b>SUBTOTAL .....</b>	<b>29,697</b>	<b>30,178</b>	<b>30,627</b>	<b>449</b>	<b>1%</b>
<b>Applied Research</b>					
Defense .....	4,328	4,737	4,477	-260	-5%
Health and Human Services .....	15,066	14,919	15,192	273	2%
Energy .....	3,575	3,857	4,152	295	8%
NASA .....	2,343	2,799	2,842	43	2%
National Science Foundation .....	455	450	459	9	2%
Commerce .....	742	785	1,478	693	88%
Agriculture .....	1,174	1,143	1,127	-16	-1%
Veterans Affairs .....	628	630	630	0	0%
Transportation .....	701	673	821	148	22%
Interior .....	626	621	669	48	8%
Homeland Security .....	154	116	176	60	52%
Environmental Protection Agency .....	407	398	407	9	2%
Education .....	221	228	233	5	2%
Patient-Centered Outcomes Research Trust Fund .....	40	120	312	192	160%
Smithsonian Institution .....	.....	.....	.....	.....	.....
Other .....	373	307	394	87	28%
<b>SUBTOTAL .....</b>	<b>30,833</b>	<b>31,783</b>	<b>33,369</b>	<b>1,586</b>	<b>5%</b>

**Table 22-1. FEDERAL RESEARCH AND DEVELOPMENT SPENDING—Continued**  
(Budget authority, dollar amounts in millions)

	2011 Actual	2012 Estimate	2013 Proposed	Dollar Change: 2013 to 2012	Percent Change: 2013 to 2012
<b>Development</b>					
Defense .....	71,205	65,786	64,536	-1,250	-2%
Health and Human Services .....	20	20	20	0	0%
Energy .....	2,361	2,387	2,855	468	20%
NASA .....	5,299	4,975	5,131	156	3%
National Science Foundation .....	.....	.....	.....	.....	.....
Commerce .....	125	98	270	172	176%
Agriculture .....	177	167	174	7	4%
Veterans Affairs .....	94	90	90	0	0%
Transportation .....	228	246	234	-12	-5%
Interior .....	80	116	121	5	4%
Homeland Security .....	261	199	299	100	50%
Environmental Protection Agency .....	87	85	87	2	2%
Education .....	135	158	159	1	1%
Patient-Centered Outcomes Research Trust Fund .....	.....	.....	.....	.....	.....
Smithsonian Institution .....	.....	.....	.....	.....	.....
Other .....	174	156	162	6	4%
<b>SUBTOTAL .....</b>	<b>80,246</b>	<b>74,483</b>	<b>74,138</b>	<b>-345</b>	<b>-0%</b>
<b>Facilities and Equipment</b>					
Defense .....	90	105	79	-26	-25%
Health and Human Services .....	87	163	178	15	9%
Energy .....	758	857	800	-57	-7%
NASA .....	260	283	250	-33	-12%
National Science Foundation .....	395	452	458	6	1%
Commerce .....	254	209	632	423	202%
Agriculture .....	-149	92	92	0	0%
Veterans Affairs .....	.....	.....	.....	.....	.....
Transportation .....	24	25	21	-4	-16%
Interior .....	2	3	3	0	0%
Homeland Security .....	152	191	141	-50	-26%
Environmental Protection Agency .....	.....	.....	.....	.....	.....
Education .....	.....	.....	.....	.....	.....
Patient-Centered Outcomes Research Trust Fund .....	.....	.....	.....	.....	.....
Smithsonian Institution .....	58	41	36	-5	-12%
Other .....	7	4	.....	-4	-100%
<b>SUBTOTAL .....</b>	<b>1,938</b>	<b>2,425</b>	<b>2,690</b>	<b>265</b>	<b>11%</b>



## 23. CREDIT AND INSURANCE

The Federal Government offers direct loans and loan guarantees to support a wide range of activities including home ownership, education, small business, farming, energy, infrastructure investment, and exports. Also, Government-Sponsored Enterprises (GSEs) operate under Federal charters for the purpose of enhancing credit availability for targeted sectors. Through its insurance programs, the Federal Government insures deposits at depository institutions, guarantees private defined-benefit pensions, and insures against some other risks such as flood and terrorism. Over the last few years, many of these programs have been playing more active roles to address financing difficulties triggered by the recent financial crisis.

This chapter discusses the roles of these diverse programs:

- The first section emphasizes the roles of Federal credit and insurance programs in addressing mar-

ket imperfections that may prevent the private market from efficiently providing credit and insurance.

- The second section discusses individual credit programs and the GSEs. Credit programs are broadly classified into five categories: housing, education, small business and farming, energy and infrastructure, and international lending.
- The third section reviews Federal deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism and other security-related risks.
- The last section is devoted to some special issues that merit more attention and analyses. The focus this year is on issues surrounding “fair value” cost estimates for Federal credit programs. The discussion of fair value is followed by a brief discussion of public-private partnership.

### I. THE FEDERAL ROLE

Credit and insurance markets sometimes fail to function smoothly due to market imperfections. Relevant market imperfections include information failures, monitoring problems, limited ability to secure resources, insufficient competition, externalities, and financial market instability. Federal credit and insurance programs may improve economic efficiency if they effectively fill the gaps created by market imperfections. But the presence of a market imperfection does not mean that Government intervention will always be effective. To be effective, a credit or insurance program should be carefully designed to reduce inefficiencies in the targeted area without disturbing efficiently functioning areas.

**Information Failures.** When lenders have insufficient information about borrowers, they may fail to evaluate the creditworthiness of borrowers accurately. As a result, some creditworthy borrowers may fail to obtain credit at a reasonable interest rate, while some high-risk borrowers obtain credit at an attractive interest rate. The problem becomes more serious when borrowers are much better informed about their own creditworthiness than lenders (asymmetric information). With asymmetric information, raising the interest rate can disproportionately draw high-risk borrowers who care less about the interest rate (adverse selection). Thus, if adverse selection is likely for a borrower group, lenders may limit the amount of credit to the group instead of raising the interest rate or even exclude the group all together. In this situation, many creditworthy borrowers may fail to obtain credit even at a high interest rate. Ways to deal with this problem in the private sector include equity financing and pledging collateral. Federal credit programs play a crucial

role for those populations that are vulnerable to this information failure and do not have effective means to deal with it. Start-up businesses lacking a credit history, for example, are vulnerable to the information failure, but most of them do not have access to equity financing or sufficient collateral. Another example is students who have little income, little credit experience, and no collateral to pledge. Without Federal credit assistance, many in these groups may be unable to pursue their goals. In addition, a moderate subsidy provided by the Government can alleviate adverse selection by attracting more low-risk borrowers, although an excessive subsidy can cause economic inefficiency by attracting many borrowers with unworthy projects.

**Monitoring Needs.** Monitoring is a critical part of credit and insurance businesses. Once the price (the interest rate or the insurance premium) is set, borrowers and policyholders may have incentives to engage in risky activities. Insured banks, for example, might take more risk to earn a higher return. Although private lenders and insurers can deter risk-taking through covenants, repricing, and cancellation, Government regulation and supervision can be more effective in some cases, especially where covering a large portion of the target population is important. For a complex business like banking, close examination may be necessary to deter risk-taking. Without legal authority, close examination may be impractical. When it is difficult to prevent risk-taking, private insurers may turn down many applicants and often cancel policies, which is socially undesirable in some cases. To the extent possible, bank failures should be prevented because they can disrupt the financial market. If private-sector pen-



sions were unprotected, many retirees could experience financial hardships and strain other social safety nets.

**Limited Ability to Secure Resources.** The ability of private entities to absorb losses is more limited than that of the Federal Government. For some events potentially involving a very large loss concentrated in a short time period, therefore, Government insurance can be more reliable. Such events include large bank failures and some natural and man-made disasters that can threaten the solvency of private insurers. In addition, some lenders may have limited funding sources. Small local banks, for example, may have to rely largely on local deposits.

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

**Externalities.** Decisions at the individual level are not socially optimal when individuals do not capture the full benefit (positive externalities) or bear the full cost (negative externalities) of their activities. Education, for example, generates positive externalities because the general public benefits from the high productivity and

good citizenship of a well-educated person. Pollution, in contrast, is a negative externality, from which other people suffer. Without Government intervention, people will engage less than the socially optimal level in activities that generate positive externalities and more in activities that generate negative externalities.

**Financial Market Instability.** Another rationale for Federal intervention is to prevent instability in the financial market. Without deposit insurance, for example, the financial market would be much less stable. When an economic shock impairs the financial structure of many banks, depositors may find it difficult to distinguish between solvent banks and insolvent ones. In this situation, a large number of bank failures might prompt depositors to withdraw deposits from all banks (bank runs). Bank runs would make bank failures contagious and harm the entire economy. Deposit insurance is critical in preventing bank runs.

**Reducing Inequality and Increasing Access.** In addition to correcting market failures, Federal credit programs are often used to provide subsidies that reduce inequalities or extend opportunities to disadvantaged regions or segments of the population.

## II. CREDIT IN VARIOUS SECTORS

### Housing Credit Programs and GSEs

Through housing credit programs, the Federal Government promotes homeownership and housing among various target groups, including low-income people, veterans, and rural residents. Recently, the target market served has expanded dramatically due to the financial crisis.

During the Great Depression, a typical mortgage required a down-payment of around 50 percent and a balloon payment of principal within a few years. Limitations in financial and communication technologies and restrictions on financial institutions made it difficult for surplus funds in one part of the country to be shifted to other parts of the country to finance residential housing. Starting in 1932, the Congress responded by creating a series of entities and programs that together promoted the development of long-term, amortizing mortgages and facilitated the movement of capital to support housing finance.

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

The consequences of inflated house prices and loose mortgage underwriting during the housing bubble that peaked in 2007 are perilous conditions for many American homeowners. As broader economic conditions soured and home prices declined, millions of families have been fore-

closed upon, millions more find themselves owing more on their homes than their homes are worth, and many communities have been destabilized. To make matters more difficult, private capital had all but disappeared from the market. Without the unprecedented Federal support provided to the housing market over the last four years, the situation would be far more problematic.

### Federal Housing Administration

The Federal Housing Administration (FHA) guarantees mortgage loans to provide access to homeownership for people who may have difficulty obtaining a conventional mortgage. FHA has been a primary facilitator of mortgage credit for first-time and minority buyers, a pioneer of products such as the 30-year self-amortizing mortgage, and a vehicle to enhance credit for many moderate and low-income households. It continues to have an important place in the mortgage market, but its roles, and hence its risks, also continue to shift.

### FHA and the Mortgage Market

In the early 2000s, FHA's market presence diminished greatly as low interest rates increased the affordability of mortgage financing and more borrowers used emerging non-prime mortgage products, including subprime and Alt-A mortgages. Many of these products had exotic and risky features such as low "teaser rates" offered for periods as short as the first two years of the mortgage, high loan-to-value ratios (with some mortgages exceeding the value of the house), and interest-only loans requiring full payoff at a set future date. The Alt-A mortgage made credit easily available by waiving documentation of income or assets. This competition eroded the market share

of FHA's single-family loans, reducing it from 9 percent in 2000 to less than 2 percent in 2005.

Starting at the end of 2007 and continuing through the present day, the availability of FHA and Government National Mortgage Association (which supports the secondary market for federally-insured housing loans by guaranteeing securities backed by such mortgages) credit guarantees has been an important factor countering the tightening of the private credit markets. With fewer conventional options, borrowers and lenders have flocked to FHA mortgages that have the advantages of being widely understood in the mortgage market, and offering ready access to the secondary markets. The annual volume of FHA's single-family mortgages soared from \$52 billion in 2006 to \$330 billion in 2009.

FHA's presence has supported the home purchase market and enabled many existing homeowners to re-finance at today's lower rates. If not for such re-financing options, many homeowners would face higher risk of foreclosure due to the less favorable terms of their current mortgages.

While the provision of FHA insurance is serving a valuable role in addressing the needs of the present, the potential return of conventional finance to the mortgage market—with appropriate safeguards for consumers and investors including proper assessment and disclosure of risk—would broaden both the options available to borrowers and the sources of capital to fund those options. The Administration supports a greater role for non-federally-assisted mortgage credit, while recognizing that FHA will continue to play an important role in the mortgage market going forward.

Following its peak in 2009, FHA's new origination loan volume declined in 2011 to \$218 billion. There is also evidence that FHA's market footprint is contracting. FHA's share of new home purchase loans declined to 24 percent in the first half of 2011, after peaking at 30 percent in 2009. Part of this decline is likely due to the increased price of FHA insurance, as discussed in detail below.

### ***FHA's Budget Costs***

Throughout the recent period of stress in the mortgage market and into the Budget's projections for 2013, FHA, like all other mortgage market participants, has faced significant financial risk and incurred large costs associated with defaults on loans made prior to the housing bubble's burst. Since 1992, the net cost of FHA Mutual Mortgage Insurance (MMI) Fund insurance (comprised of nearly all FHA single-family mortgages and, beginning with 2008 originations, Home Equity Conversion Mortgages) has been reestimated and increased by a total of \$49.1 billion excluding interest, with \$20.0 billion of that reestimate occurring in the last three years.

FHA's budget estimates are volatile and prone to forecast error because default claim rates are sensitive to economic developments which are hard to predict. Insurance premium revenues are spread thinly but universally over pools of policyholders, making those inflows generally stable and easy to predict with low error. Mortgage insurance costs, however, are concentrated in the small minority of borrowers who default and become claims, with

the average per claim cost much larger than the average premium income. Therefore, if claims change by even a small fraction of borrowers (e.g., 1 percent), net insurance costs will move by a multiple of that change. For other forms of insurance, such as life and health, these changes tend to gradually occur over time, allowing actuaries to anticipate the effects and modify risk and pricing models accordingly. The history of FHA, however, has been spotted with rapid, unanticipated changes in claim costs and recoveries. FHA is vulnerable to "Black Swans," outlier events that are difficult to predict and have deep effect. For FHA, these include the collapse of house prices nationwide and the emergence of lending practices with very high claim rates, such as the now illegal seller-financed, down-payment mortgage. These amplify otherwise normal estimation errors, contributing to large reestimates.

One of the major benefits of an FHA-insured mortgage is that it provides a homeownership option for borrowers who make only a modest down-payment, but show that they are creditworthy and have sufficient income to afford the house they want to buy. In 2010, 68 percent of new FHA loans were financed with less than five percent down. The disadvantage to these low, down-payment mortgages is that they have little in the way of an equity cushion should house prices decline. When house price declines or stagnation combines with household income loss, limited equity makes mortgage claims more likely, as the market price for a home may not be sufficient to pay off the debt.

FHA has safeguards (such as requiring documented income) to protect it from the worst credit-risk exposure, such as that experienced in the private sector subprime and Alt-A markets. All parties with credit-risk, however, have been significantly hurt by house price depreciation and the prospect of continued weakness in the near-term. FHA's exposure is more limited than many other mortgage market participants, however, due to a relatively lower number of mortgages in higher cost markets and a low volume of originations until 2008.

Combining all these factors, FHA recorded a reestimate excluding interest of \$6.6 billion in 2012 in the expected costs of its outstanding loan portfolio of the MMI Fund. Under the provisions of the Federal Credit Reform Act, these subsidy reestimate costs are recorded as mandatory outlays in the year the reestimates are performed and will increase the 2012 budget deficit. According to its annual actuarial analysis, FHA has been below the target minimum capital ratio of 2 percent since 2009. As the housing market recovers, the actuarial review projects that the ratio will again exceed 2 percent by 2015. However, it is important to note that a low capital ratio does not threaten FHA's operations, either for its existing portfolio or for new books of business. Unlike private lenders, the guarantee on FHA and other Federal loans is backed by the full faith and credit of the Federal Government and is not dependent on capital reserves to honor its commitments.

### ***Policy Responses to Enhance FHA's Risk Management and Capital Reserve***

Since 2008, FHA has increased insurance premiums and tightened underwriting criteria to reduce risk, bolster its capital resources, and encourage the re-entry of private finance into the mortgage market. These steps result from analyzing: 1) the ongoing broader housing market stabilization and recovery; 2) the credit risk of specific targeted populations; and 3) FHA MMI Fund capital reserves. This approach balances the goal of rebuilding FHA's capital reserves quickly against the risks of compromising FHA's mission and overcorrecting during this critical time in the housing market recovery.

To increase FHA's capital resources and to encourage the return of large-scale private mortgage financing, there have been four premium increases since 2008. Later this year, FHA will implement another increase of 0.1 percentage points in annual premiums. For a typical borrower, the cumulative increases since 2008 are roughly equivalent to an increase in annual premiums of 0.65 percentage points. While this is a significant increase, its impact on the housing market should be modest. With high housing affordability resulting from low interest rates and decreased house prices, the main obstacle to housing market recovery is not high financing costs but limited credit availability.

To increase FHA support of credit while the housing market is troubled, several temporary higher loan limits have been enacted since 2008. These limits cap the size of FHA mortgages at the lesser of \$729,750 or 125 percent of area median house price while the permanent limits are the lesser of \$625,500 or 115 percent of area median price. The temporary limits expire at the end of 2013. Similar temporary loan limits for Fannie Mae and Freddie Mac expired at the end of September 2011. As a result, FHA faces less competition for eligible mortgages between \$625,500 and \$729,750, the "jumbo" mortgages. FHA has increased insurance premiums in part to encourage the return of private financing to the mortgage markets. To further this objective and provide balance against FHA's advantage in jumbos, FHA will increase the annual premiums for jumbos by 0.25 percentage points in addition to the 0.10 percentage point increase for all FHA single-family mortgages that was enacted at the end of December in the Temporary Payroll Tax Cut Continuation Act of 2011.

In 2010, FHA implemented new loan-to-value (LTV) and credit score requirements. FHA's minimum credit score was raised to 580 for borrowers making low down-payments of less than 10 percent (loan-to-value ratios above 90 percent). Other borrowers, having the security of possessing a high amount of home equity relative to low down-payment borrowers, are eligible for FHA assistance with a credit score as low as 500. FHA also is reducing allowable seller concessions from 6 percent to 3 percent or \$6,000, whichever is higher. This will conform closer to industry standards and reduce potential house price over-valuation.

In addition to the single-family mortgage insurance provided through the MMI program, FHA's General

Insurance and Special Risk Insurance (GISRI) loan guarantee programs facilitate the construction, rehabilitation, or refinancing of tens of thousands of apartments and hospital beds in multifamily housing and healthcare facilities each year. Annual loan volumes in these programs have exploded over the last several years, from less than \$5 billion in 2008 to more than \$17 billion in 2011 as alternatives to FHA financing have all but disappeared for many properties due to general stress in financial markets. However, this new countercyclical demand is concentrated in "market rate" housing properties and large hospital loans rather than FHA's traditional business of affordable housing properties receiving other forms of Federal assistance. FHA has struggled to keep up with demand and currently has an application backlog of \$9 billion. In order to improve targeting in these demand-driven programs and reduce the administrative burden and processing delays caused by the current influx of demand, beginning in 2013, FHA will selectively increase annual premiums on market rate housing loans as well as healthcare and hospital facilities. The premium increases will range from 0.05 percentage points to 0.20 percentage points. Properties that provide affordable housing for low-income families and receive HUD rental assistance or low-income housing tax credits will be exempted. These modest premium increases will generate additional receipts and will help level the playing field with private mortgage credit for these projects.

### **VA Housing Program**

The Department of Veterans Affairs (VA) assists veterans, members of the Selected Reserve, and active duty personnel in purchasing homes as recognition of their service to the Nation. The housing program substitutes the Federal guarantee for the borrower's down-payment, making the lending terms more favorable than loans without a VA guarantee. VA provided 129,479 zero down-payment loans in 2011. The number of loans VA guaranteed remained at a high level in 2011, as the tightened credit markets continued to make the VA housing program more attractive to eligible homebuyers. Additionally, the continued historically low interest rate environment of 2011 allowed 89,563 Veteran borrowers to lower the interest rate on their home mortgages. VA provided \$72 billion in guarantees to assist 343,556 borrowers in 2011, compared with \$63 billion and 303,701 borrowers in 2010.

VA also assists borrowers through joint servicing efforts with VA-guaranteed loan servicers via home retention options and alternatives to foreclosure. VA intervenes when needed to help veterans and service members avoid foreclosure through the acquired loan program, loan modifications, and assistance to complete a short sale or deed-in-lieu of foreclosure. These joint efforts helped resolve over 83 percent of defaulted VA-guaranteed loans in 2011.

### **Rural Housing Service**

The Rural Housing Service (RHS) at the U.S. Department of Agriculture (USDA) offers direct and guaranteed loans to help very-low to moderate income rural residents buy and maintain adequate, affordable housing.



RHS housing loans and loan guarantees differ from other Federal housing loan programs in that they are means-tested, making them more accessible to low-income, rural residents.

The 2013 Budget continues to reflect a re-focusing of USDA single family housing assistance programs to improve effectiveness by providing single family housing assistance primarily through loan guarantees. Within its \$24 billion loan level, the Budget expects to provide at least \$5 billion in loans for low income rural borrowers, which will provide 37,000 new homeownership opportunities to that income group. Overall, the program could potentially provide 179,000 new homeownership opportunities to low to moderate income rural residents in 2013.

For the single family housing guarantees, the Budget assumes a fee structure similar to that introduced in 2012, which is consistent with HUD's FHA guaranteed loan program. The maximum up-front fee on loans will be 2 percent, with an annual fee of 0.4 percent. This fee structure serves to reduce the overall subsidy cost of the loans without adding significant burden to the borrowers, given that the up-front fee may be financed and repaid over a long period, and that the annual fee will only be a nominal amount added to the borrower's payment each month.

For USDA's single family housing direct loan program, the Budget provides a reduced loan level of \$653 million for 2013. The reduced level represents a minimum level to allow targeted support for teachers in rural areas and beneficiaries of the mutual self-help housing program along with other very-low and low income individuals in rural areas still needing mortgage credit assistance despite historically low interest rates.

For USDA's multifamily housing portfolio, the Budget focuses primarily on portfolio management. The Budget fully funds this rehabilitation effort by providing \$34 million for the multifamily housing revitalization activities, which include loan modifications, grants, zero percent loans, and soft second loans. These activities allow borrowers to restructure their debt so that they can effectively rehabilitate properties within the portfolio in order for them to continue to supply decent, safe, affordable housing to the low and very-low income population in rural America. In addition, rental assistance grants, which are vital to the proper underwriting of the multifamily housing direct loan portfolio, are funded at \$907 million, which is sufficient to renew outstanding contracts. The Budget also authorizes \$150 million in guaranteed multifamily housing loans and \$18 million in budget authority for the Farm Labor Housing grants and loans program. The combined 2013 Budget request in the rural development multifamily housing portfolio reflects the Administration's support for the poorest rural tenant population base.

### **Government-Sponsored Enterprises in the Housing Market**

The Federal Home Loan Bank (FHLB) System, created in 1932, is comprised of twelve individual banks with shared liabilities. Together they lend money to financial institutions – mainly banks and thrifts – that are

involved in mortgage financing to varying degrees, and they also finance some mortgages using their own funds. Recent financial market conditions have led to strong net interest income for the FHLBs, but several banks have experienced significant losses on their investments in private-label mortgage-backed securities. These securities constitute 4 percent of their total portfolio. Strict collateral requirements, superior lien priority, and joint debt issuances backed by the entire system have helped the FHLBs remain solvent and stronger regulatory oversight has led to growth in FHLB system-wide capital from just above the regulatory ratio of 4 percent in 2008 to almost 7 percent in 2011.

The Federal National Mortgage Association, or Fannie Mae, created in 1938, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, created in 1970, were established to support the stability and liquidity of a secondary market for residential mortgage loans. Fannie Mae's and Freddie Mac's public missions were later broadened to promote affordable housing.

Together these three GSEs currently are involved, in one form or another, with approximately half of the \$11 trillion residential mortgages outstanding in the U.S. today. Their share of outstanding residential mortgage debt peaked at 55 percent in 2003. Subsequently, originations of subprime and non-traditional mortgages led to a surge of private-label Mortgage-Backed Securities (MBS), reducing the three GSEs' market share to a low of 47 percent in 2006. Recent disruptions in the financial market, however, have led to a resurgence of their market share. The combined market share of the three GSEs was 51 percent as of September 30, 2011, a two percentage point decline from the previous year largely attributable to reductions in the retained investment portfolios of Fannie Mae and Freddie Mac.

The growing stress and losses in the mortgage markets over the last four years seriously eroded the capital of Fannie Mae and Freddie Mac, and responsive legislation enacted in July 2008 strengthened GSE regulation and provided the Treasury Department with authorities to bolster the GSEs' financial condition. In September 2008, reacting to growing GSE losses and uncertainty that threatened to paralyze the mortgage markets, the Federal Housing Finance Agency put Fannie Mae and Freddie Mac under Federal conservatorship, and Treasury began to exercise its authorities to provide assistance to stabilize the GSEs. The Budget continues to reflect the GSEs as non-budgetary entities in keeping with their temporary status in conservatorship. However, all of the current Federal assistance being provided to Fannie Mae and Freddie Mac, including capital provided by Treasury through the Senior Preferred Stock Purchase Agreements (PSPA), is shown on-budget, and discussed below.

### **Mission**

The mission of the housing GSEs is to support certain aspects of the U.S. mortgage market. The mission of the FHLB System is broadly defined as promoting housing finance, and the System also has specific requirements to support affordable housing. Its principal business re-



mains lending (secured by mortgages and financed by System debt issuances) to regulated depository institutions and insurance companies engaged in residential mortgage finance.

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

1. **Credit Guarantee Business** – Fannie Mae and Freddie Mac guarantee the timely payment of principal and interest on mortgage-backed securities (MBS). They create MBS by pooling mortgages acquired through either purchase from or swap arrangements with mortgage originators. Over time these MBS held by the public have averaged about one-quarter of the U.S. mortgage market, and as of November 30, 2011 they totaled \$3.8 trillion.
2. **Mortgage Investment Business** – Fannie Mae and Freddie Mac manage retained mortgage portfolios composed of their own MBS, MBS issued by others, and individual mortgages. The GSEs finance the purchase of these portfolio assets through debt issued in the credit markets. As of November 30, 2011, these retained mortgages, financed largely by GSE debt, totaled \$1.4 trillion. As a term of their PSPA with Treasury, the combined investment portfolios of Fannie Mae and Freddie Mac were limited to no more than \$1.8 trillion as of December 31, 2009, and will decline by 10 percent each year. The effective limitation as of December 31, 2011 is \$1.46 trillion.

As of November 30, 2011, the combined debt and guaranteed MBS of Fannie Mae and Freddie Mac totaled \$5.3 trillion. Historically, investors in GSE debt have included thousands of banks, institutional investors such as insurance companies, pension funds, foreign governments and millions of individuals through mutual funds and 401k investments.

### **Regulatory Reform**

The 2008 Housing and Economic Recovery Act (HERA) reformed and strengthened the GSEs' safety and soundness regulator by creating the Federal Housing Finance Agency (FHFA), a new independent regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The FHFA authorities consolidate and expand upon the regulatory and supervisory roles of what were previously three distinct regulatory bodies: the Federal Housing Finance Board as the FHLB's overseer; the Office of Federal Housing Enterprise Oversight as the safety and soundness regulator of the other GSEs; and HUD as their public mission overseer. FHFA was given substantial authority and discretion to influence the size and composition of Fannie Mae and Freddie Mac investment portfolios through the establishment of housing goals, through monitoring GSE compliance with those goals, and through capital requirements.

FHFA is required to issue housing goals for each of the regulated enterprises, including the FHLBs, with respect

to single family and multi-family mortgages and has the authority to require a corrective "housing plan" if an enterprise does not meet its goals and statutory reporting requirements, and in some instances impose civil money penalties. In August of 2009, FHFA promulgated a final rule adjusting the overall 2009 housing goals downward based on a finding that current market conditions have reduced the share of loans that qualify under the goals. However, HERA mandated dramatic revisions to the housing goals, which were implemented the following year. The revised goals for 2010 and 2011, promulgated by FHFA on September 14, 2010, provide for a retrospective and market based analysis of the GSEs contributions toward the goals by expressing the goals as a share of the GSEs total portfolio purchase activity. The revised goals for Fannie Mae and Freddie Mac comprise four single-family goals and one multifamily special affordability goal.

The expanded authorities of FHFA also include the ability to place any of the regulated enterprises into conservatorship or receivership based on a finding of undercapitalization or a number of other factors.

### **Conservatorship**

On September 6, 2008, FHFA placed Fannie Mae and Freddie Mac into conservatorship. This action was taken in response to the GSEs' declining capital adequacy and to support the safety and soundness of the GSEs and their role in the secondary mortgage market. HERA provides that as conservator FHFA may take any action that is necessary to return Fannie Mae and Freddie Mac to a sound and solvent condition and to preserve and conserve the assets of each firm. As conservator, FHFA has assumed the powers of the Board and shareholders at Fannie Mae and Freddie Mac. FHFA has appointed new Directors and CEOs that are responsible for the day-to-day operations of the two firms. While in conservatorship, FHFA expects Fannie Mae and Freddie Mac to continue to fulfill their core statutory purposes, including their support for affordable housing discussed above.

### **Department of Treasury GSE Support Programs under HERA**

On September 7, 2008, the U.S. Treasury launched three new programs to provide temporary financial support to the GSEs under the temporary authority provided in HERA. These authorities expired on December 31, 2009.

#### **1. PSPA with Fannie Mae and Freddie Mac**

Treasury has entered into agreements with Fannie Mae and Freddie Mac to make investments in senior preferred stock in each GSE in order to ensure that each company maintains a positive net worth. In exchange for the substantial funding commitment, the Treasury received \$1 billion in preferred stock for each GSE and warrants to purchase up to a 79.9 percent share of common stock at a nominal price. The initial agreements were for up to \$100 billion in each of these GSEs. On February 18, 2009, Trea-

surey announced that the funding commitments for these agreements would be increased to \$200 billion each. On December 24, 2009, Treasury announced that the funding commitments in the purchase agreements would be modified to the greater of \$200 billion or \$200 billion plus cumulative net worth deficits experienced during 2010-2012, less any surplus remaining as of December 31, 2012. In total, as of December 31, 2011, \$182.7 billion has been invested in the GSEs, and the redemption face value of GSE preferred stock held by Treasury has increased accordingly. Fannie Mae and Freddie Mac must pay quarterly dividends to Treasury based on the redemption value of Treasury's senior preferred stock; \$36.3 billion in dividends have been paid as of December 31, 2011. The Budget assumes that Treasury will make cumulative investments in Fannie Mae and Freddie Mac of \$221 billion from 2009 through 2013 and receive dividends of \$73 billion over the same period. Starting in 2013, the Budget forecasts that Fannie Mae and Freddie Mac will have sufficient earnings to pay part but not all of the scheduled dividend payments. The Budget assumes additional net dividend receipts of \$121 billion from 2014-2022. The cumulative cost of the PSPA agreements from the first PSPA purchase through 2022 is estimated to be \$28 billion.

## 2. *GSE MBS Purchase Programs*

Treasury initiated a temporary program to purchase MBS issued by Fannie Mae and Freddie Mac, which carry the GSEs' standard guarantee against default. The purpose of the program was to promote liquidity in the mortgage market and, thereby, affordable homeownership by stabilizing the interest rate spreads between mortgage rates and Treasuries. Treasury purchased \$226 billion in MBS from September 2008 to December 31, 2009, when the statutory authority for this program expired. In March of 2011, Treasury announced that it would begin selling off up to \$10 billion of its MBS holdings per month, subject to market conditions. As a result of these sales and regular borrower repayments, Treasury's MBS holdings declined to \$31 billion as of December 31, 2011.

## 3. *GSE Credit Facility*

Treasury promulgated the terms of a temporary secured credit facility available to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The facility was intended to serve as an ultimate liquidity backstop to the GSEs if necessary. No loans were needed or issued through December 31, 2009, when Treasury's HERA purchase authority expired.

## 4. *State Housing Finance Agency Programs*

In December 2009, Treasury initiated two additional purchase programs under HERA authority to support state and local Housing Financing Agencies (HFAs). Under the New Issue Bond Program (NIBP) Treasury purchased \$15.3 billion in securities of Fannie Mae and Freddie Mac to be comprised of new HFA housing issuances.

The Temporary Credit and Liquidity Program (TCLP) provides HFAs with credit and liquidity facilities supporting up to \$8.2 billion in existing HFA bonds. Treasury's statutory authority to enter new obligations for these programs expired on December 31, 2009. Historically, HFAs have funded their activities by issuing tax-exempt mortgage revenue bonds (MRBs), keeping the associated mortgage collateral produced on HFA balance sheets. The bond performance of HFAs has generally been strong. However, due to the uncertainties and strain throughout the housing sector and the widening of spreads in the tax-exempt market, HFAs have experienced challenges in issuing new bonds to fund new mortgage lending. They have also faced difficulties in renewing required liquidity facilities on non-punitive terms. In November 2011, Treasury announced a one year extension of the contractual deadline for HFAs to use existing NIBP funds to December 31, 2012.

## *Federal Reserve Agency Mortgage-Backed Securities and Direct GSE Obligation Purchase Programs*

On November 25, 2008, the Federal Reserve Board announced new programs to purchase agency MBS, including Fannie Mae, Freddie Mac, and Ginnie Mae issuances, and direct debt obligations of the GSEs (including the FHLBs). In total, the Federal Reserve purchased \$1.1 trillion in GSE MBS and \$172 billion in GSE debt. The purchase programs were wound down in March 2010 and are widely credited with pushing down mortgage interest rates. Mortgage rates have remained very low by historical standards and according to the Freddie Mac Primary Mortgage Market Survey (PMMS) reached an all-time low of 3.88 percent for the average 30-year fixed-rate the week ending January 20, 2012.

## *Recent GSE Role in Administration Initiatives to Relieve the Foreclosure Crisis*

While under conservatorship, Fannie Mae and Freddie Mac have continued to play a leading role in Government and market initiatives to prevent homeowners who can no longer afford to make their mortgage payments from losing their homes. In November, 2008 the mortgage industry's HOPE NOW Alliance announced the Streamlined Modification Program (SMP). The SMP established industry standards for voluntary mortgage modifications to assist distressed borrowers by reducing their monthly mortgage payments to no more than 38 percent of a borrower's gross monthly income. However, only a small number of modifications were initiated under the SMP program. The limited success of the SMP program was due in part to securitization agreement restrictions on mortgage servicers regarding permissible modifications, put in place to protect investors. These restrictions included requiring a finding of imminent default, or a demonstration that the net present value to the investor would be maximized, before a loan can be modified.

In March 2009, the Administration announced its Making Home Affordable (MHA) program, which includes

the Home Affordable Modification Program (HAMP), and the Home Affordable Refinance Program (HARP).

Fannie Mae and Freddie Mac are participating in the HAMP both for mortgages they own or guarantee and as the Treasury Department's contractual financial agents. Under HAMP, investors, lenders, servicers, and borrowers receive incentive payments from Treasury's TARP fund for actions taken to reduce the monthly mortgage payment for troubled borrowers to 31 percent of their gross income, fixed for 5 years, establishing a new standard for mortgage modification affordability. As of November 30, 2011, more than 1.75 million trial modifications have been initiated, resulting in nearly 910,000 permanent mortgage modifications.

Fannie Mae and Freddie Mac are also integral to HARP. Under the program, borrowers with a mortgage that is owned by Fannie Mae or Freddie Mac may be eligible to refinance their mortgage to take advantage of the current low interest rate environment regardless of their current loan-to-value (LTV) ratio. Prior to HARP, the LTV limit of 80 percent for conforming purchase mortgages without a credit enhancement such as private mortgage insurance also applied to refinancing of mortgages owned by the GSEs. Borrowers whose home values had dropped such that their LTVs had increased above 80 percent could not take advantage of the refinance opportunity. On October 24, 2011, FHFA announced that the HARP program would be extended through 2013 and enhanced by lowering the fees charged by Fannie Mae and Freddie Mac, streamlining the application process, and removing the previous LTV cap of 125 percent. (See Chapter 4 for more information).

The Administration is also working with FHFA to develop pilot programs that will convert foreclosed homes into rental properties. These real estate owned (REO) to rental property conversion programs will both increase rental housing opportunities and support home prices by reducing the supply of foreclosed homes on the market.

### ***Risks that GSEs Face***

Like other financial institutions, the GSEs face a full range of risks, including market risk, credit risk, and operational risk. The housing market downturn in the last four years has significantly increased the credit risk for mortgage delinquencies and defaults faced by Fannie Mae and Freddie Mac, which poses systemic risk. Systemic risk is the risk that liquidity or solvency problems at a financial institution or group of institutions could lead to problems more widely in the financial system or economy – the risk that a small problem could multiply to a point where it could jeopardize the country's economic well-being. Before conservatorship, the failure of Fannie Mae and Freddie Mac posed a significant systemic risk because of their size, high leverage, and the critical role of mortgage financing in the economy. However, this risk has been substantially reduced as a result of the additional risk capital provided to them through the Senior Preferred Stock Purchase Agreements with the U.S. Department of Treasury.

### ***Future of the GSEs***

In February 2011 the Administration transmitted a white paper to Congress that 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 paper outlined three broad options for a future system of housing finance ranging from a mostly private mortgage market, with the Government role limited to FHA and other existing programs, to a system with explicit Government guarantees for the majority of the secondary mortgage market. In addition to reforming the housing finance system, the white paper stated continued support for a dedicated budget-neutral mechanism to fund affordable housing programs, similar to the Housing Trust Fund enacted in the Housing and Economic Recovery Act of 2008, which would have been funded by assessments on the GSEs but has not been capitalized due to their conservatorship. The white paper also identified mechanisms to wind down the GSEs, including reducing the conforming loan limits, shrinking the GSE investment portfolios, and increasing pricing for GSE guarantees.

While the Administration and Congress continue to evaluate long-term housing finance reform, meaningful steps have already been taken to reduce the role of the GSEs. As proposed in the 2012 Budget, the temporary GSE conforming loan limits of up to \$729,750 were allowed to expire on September 30, 2011, and the allowable investment portfolios of Fannie Mae and Freddie Mac will continue to be reduced by 10 percent each year, according to the terms of Treasury's PSPA agreements with the enterprises. Recent legislation will also increase the guarantee fees charged by Fannie Mae and Freddie Mac, thereby enhancing the price-competitiveness of non-GSE mortgages. The Temporary Payroll Tax Cut Continuation Act of 2011 signed into law on December 23, 2011, requires that the GSEs increase their fees by an average of at least 0.10 percentage points above the average guarantee fee imposed in 2011. FHFA announced on December 29, 2011, that the fee increase would be implemented no later than April 1, 2012. Revenues generated by these fee increases will be remitted directly to the Treasury for deficit reduction, and the Budget estimates resulting deficit reductions of \$37 billion from 2012 through 2022.

### **Education Credit Programs**

Historically, the Department of Education (ED) helped finance student loans through two major programs: the Federal Family Education Loan (FFEL) program and the William D. Ford Federal Direct Student Loan (Direct Loan) program. In March 2010, President Obama signed the Student Aid and Fiscal Responsibility Act (SAFRA) into law which ended the FFEL program and used the \$67 billion in savings estimated by CBO to increase Pell Grants, provide more beneficial student loan repayment terms, and create a new program supporting community colleges and job training run by the Department of Labor. On July 1, 2010, ED became the sole originator of Federal



student loans through the Direct Loan program, and despite the significant challenge of transitioning, ED made all loans on time and without disruption.

The Direct Loan program was authorized by the Student Loan Reform Act of 1993. Under the Direct Loan program, the Federal Government provides loan capital directly to over 5,500 domestic and foreign schools, which then disburse loan funds to students. Loans are available to students regardless of income. However, borrowers with low family incomes are eligible for loans with more generous terms. For those loans, the Federal Government provides a variety of subsidies including paying interest while undergraduate borrowers are in school, and during certain deferment periods.

The program offers a variety of flexible repayment plans including income-based repayment, under which annual repayment amounts vary based on the income of the borrower and payments can be made over 25 years with any residual balances forgiven. In October 2011, the Administration announced an initiative that would accelerate these benefits for current college students and borrowers. Under the plan, students pay no more than 10 percent of their discretionary income for their monthly student loan payments, starting in 2012, instead of 2014, as current law allows. Additionally, an estimated 5.8 million students and recent college graduates will be able to consolidate their loans and reduce their interest rates.

As part of the Administration's broader focus on educating a globally competitive workforce while also putting the Nation on a sustainable fiscal path, the 2013 President's Budget makes several significant proposals on Federal student loans:

- *Extend the 3.4 percent interest rate on subsidized Stafford loans for one year.* The Administration is proposing to hold the subsidized Stafford student loan interest rate flat at 3.4 percent for new loans issued to undergraduates between July 1, 2012 and June 30, 2013, rather than letting the rate return to 6.8 percent, as provided for in current law.
- *Reform and Expand the Perkins Loan Program.* This proposal, similar to the 2012 Budget proposal, would create an expanded, modernized Perkins Loan program providing \$8.5 billion in new loan volume annually. Instead of being serviced by the colleges, loans would be serviced by the Department of Education along with other Federal loans. The savings from this proposal would be re-appropriated to the Pell Grant program.
- *Eliminate the in-school interest subsidy for subsidized Stafford loans after 150 percent of normal program length.* Students who do not complete their program within 150 percent of the prescribed completion time would see interest on their loans start to accrue while they are in school. The savings from this proposal would be re-appropriated to the Pell Grant program.
- *Reducing payments to guaranty agencies in the FFEL program.* This proposal would eliminate certain payments to guaranty agencies that "rehabili-

tate" defaulted student loans, and bring the fees they earn in line with those associated with other debt collection measures. The guaranty agencies would bear the cost of this reform; affected borrowers would actually experience a modest reduction in the debt they owe under this policy. The savings from this proposal would be re-appropriated to the Pell Grant program.

- *Eliminate the TEACH program.* The 2013 Budget, similarly to the 2012 Budget, would eliminate this program and replace with a new Presidential Teaching Fellows program.

### Small Business and Farm Credit Programs and GSEs

The Government offers direct loans and loan guarantees to small businesses and farmers, who may have difficulty obtaining credit elsewhere. It also provides guarantees of debt issued by certain investment funds that invest in small businesses. Two GSEs, the Farm Credit System and the Federal Agricultural Mortgage Corporation, increase liquidity in the agricultural lending market.

#### Loans to Small Businesses

The President has said small businesses are "the engine of job growth in America," and his 2013 Budget reflects his commitment to creating a climate where innovation and entrepreneurship can thrive. The Small Business Administration (SBA) helps entrepreneurs start, sustain, and grow small businesses. As a "gap lender," SBA works to supplement market lending and provide access to credit where private lenders are reluctant to do so without a Government guarantee. SBA also helps home- and business-owners, as well as renters, cover the uninsured costs of recovery from disasters through its direct loan program. At the end of calendar year 2011, SBA's outstanding balance of direct and guaranteed loans totaled approximately \$93 billion.

The 2013 Budget requests \$352 million in credit subsidy costs and \$145 million in administrative funds for SBA to support more than \$25 billion in financing for small businesses. The 7(a) General Business Loan program will support \$16 billion in guaranteed loans that will help small businesses operate and expand. This includes an estimated \$14 billion in term loans and \$2 billion in revolving lines of credit; the latter are expected to support \$46 billion in total credit assistance through draws and repayments over the life of the guarantee. The 504 Certified Development Company (CDC) program will support \$6 billion in guaranteed loans for fixed-asset financing. SBA will supplement the capital of SBICs with up to \$4 billion in long-term, guaranteed loans to support SBIC financing assistance for venture capital investments in small businesses. In addition, the Budget supports SBA's disaster direct loan program at its 10-year average volume of \$1.1 billion in loans, and includes \$167 million to administer the program and use of \$122 million in carryover balances for loan subsidy costs.



During the past year, SBA experienced higher than expected defaults in its outstanding portfolio, largely on loans guaranteed prior to the economic downturn. For the 2013 Budget credit reestimates of the liability of the guarantees outstanding at the end of 2011, SBA recorded a \$1.8 billion net upward cost reestimate. This additional cost reflects actual and expected losses on loans issued prior to 2012. It is covered by mandatory appropriations, and increases the 2012 Budget deficit.

Due to higher than expected actual and projected defaults, the subsidy cost of the 7(a) program – largely the difference between the program's net default costs and the share of costs covered by fees – is projected to increase in 2013 from 2012. The Budget provides \$349 million in subsidy budget authority for the 7(a) and 504 programs to provide loan volumes that exceed the historical program levels but are below the maximum authorized.

The Budget also requests \$3 million in subsidy budget authority for \$18 million in direct loans, and \$20 million in technical assistance grant funds for the Microloan program. The Microloan program provides low-interest loan funds to non-profit intermediaries who in turn provide loans of up to \$50,000 to new entrepreneurs.

In 2012 and 2013, SBA will be using the SBIC debentures program to support up to \$200 million of annual lending to SBIC Impact Funds that invest in economically distressed regions or sectors that have been identified as national priorities. SBA will also leverage up to \$200 million annually from its Innovation Fund program to address the capital gap many start-ups face between early-stage "angel investor" financing and later-stage venture capital financing.

To help small businesses drive economic recovery and create jobs, the Small Business Jobs Act of 2010 created two new mandatory lending-related programs administered by the Department of the Treasury, in addition to other forms of support, such as tax cuts for entrepreneurs and small business owners.

Treasury's State Small Business Credit Initiative (SSBCI) is designed to support state programs that make new loans or investments to small businesses and small manufacturers. SSBCI offered states and territories (and in certain circumstances, municipalities) the opportunity to apply for Federal funds to finance programs that partner with private lenders to extend new credit to small businesses to create jobs. These funds allow States to build on new or existing models for small business programs, including collateral support programs, Capital Access Programs (CAPs), loan guarantee programs, loan participation programs, and state venture capital programs. SSBCI expects that all approved programs demonstrate a minimum overall leverage of \$10 in new private lending for every \$1 in Federal funding. Treasury is providing approximately \$1.5 billion for SSBCI, which is expected to spur up to \$15 billion in new lending to small businesses. As of January 1, 2012, SSBCI had approved funding for 47 states, 3 territories, and the District of Columbia for a total of nearly \$1.4 billion, and disbursed \$460 million. During 2011, Treasury provided technical assistance to states that focused on elements of good

program design and the mechanics of successfully completing the SSBCI application form, which has resulted in SSBCI making funds available to over 150 state-run programs that provide new small business financing. During 2012 and 2013, Treasury plans to spend nearly \$3.5 million on dedicated technical assistance to states as they implement these programs and deploy funds to eligible small businesses in order to maximize participation in the program. Additionally, SSBCI will host a National Conference for all states on March 8-9, 2012, at the San Francisco Federal Reserve Bank for states to share success stories on how to maximize lending support to small businesses.

The second Treasury program created by the Act is the Small Business Lending Fund (SBLF), a \$30 billion fund that encourages lending to small businesses by providing capital to qualified community banks and community development loan funds (CDLFs) with assets of less than \$10 billion. Because participating institutions leverage their capital, the SBLF will help increase lending to small businesses in an amount significantly greater than the total capital provided to participating banks. In addition to expanding the lending capacity of all participants, SBLF creates a strong incentive for banks to increase small business loans by tying the cost of SBLF funding to the growth of their portfolio of small business loans. The initial dividend rate on SBLF funding is capped at 5 percent. If a bank's small business lending increases by 10 percent or more, the rate will fall to as low as 1 percent. Banks that increase their lending by amounts less than 10 percent can benefit from rates set between 2 percent and 4 percent. For participants whose lending does not increase in the first two years, however, the rate will increase to 7 percent, and after 4.5 years, the rate on all outstanding SBLF funding will increase to 9 percent. The application period for the program closed in June 2011, with 332 institutions receiving slightly over \$4 billion in funding by the end of 2011. Participants estimate that this funding could help spur a \$9 billion increase in loans to small businesses within two years of receiving the funds. The current reestimate rate and actual program volume of \$4.03 billion result in projected budget savings of \$0.08 billion, representing a decrease in projected budget cost of \$1.34 billion. As of publication of the Budget, SBLF is working on a robust survey to help track performance of the program, establish best practices, and determine how to continually increase opportunities for small businesses' access to credit. The survey is slated to be administered, and results are expected to be disseminated, before the end of 2012.

### Loans to Farmers

The Farm Service Agency (FSA) assists low-income family farmers in starting and maintaining viable farming operations. Emphasis is placed on aiding beginning and socially disadvantaged farmers. FSA offers operating loans and ownership loans, both of which may be either direct or guaranteed loans. Operating loans provide credit to farmers and ranchers for annual production expenses and purchases of livestock, machinery, and equipment, while

farm ownership loans assist producers in acquiring and developing their farming or ranching operations. As a condition of eligibility for direct loans, borrowers must be unable to obtain private credit at reasonable rates and terms. As FSA is the “lender of last resort,” default rates on FSA direct loans are generally higher than those on private-sector loans. FSA-guaranteed farm loans are made to more creditworthy borrowers who have access to private credit markets. Because the private loan originators must retain 10 percent of the risk, they exercise care in examining the repayment ability of borrowers. The subsidy rates for the direct programs fluctuate largely because of changes in the interest component of the subsidy rate.

The number of loans provided by these programs has varied over the past several years. In 2011, FSA provided loans and loan guarantees to approximately 32,000 family farmers totaling \$4.8 billion. Direct and guaranteed loan programs provided assistance totaling \$1.8 billion to beginning farmers during 2011. Loans for socially disadvantaged farmers totaled \$565 million, of which \$274 million was in the farm ownership program and \$291 million in the farm operating program. The average size of farm ownership loans continues to increase, with new customers receiving the bulk of these loans. In contrast, the majority of assistance provided in the operating loan program is to existing FSA farm borrowers. Overall, demand for FSA loans – both direct and guaranteed – continues to be high. More conservative credit standards in the private sector are moving additional applicants from commercial credit to FSA direct programs. Also, the increase in market volatility and uncertainty is driving lenders to request guarantees in situations where they may not have in the past. In the 2013 Budget, FSA proposes to make \$4.8 billion in direct and guaranteed loans through discretionary programs.

Lending to beginning farmers was strong during 2011. FSA loaned or guaranteed loans to nearly 15,000 beginning farmers. Loans provided under the Beginning Farmer Down Payment Loan Program represented over 36 percent of total direct ownership loans made during the year, maintaining the substantial increase made in 2010 over previous years. Fifty one percent of direct operating loans were made to beginning farmers. Overall, as a percentage of funds available, lending to beginning farmers was 4 percentage points above the 2010 levels. Lending to minority and women farmers was a significant portion of overall assistance provided, with \$565 million in loans and loan guarantees provided to more than 5,000 farmers. This represents an increase of 10 percent in the overall dollar value of loans to minority borrowers. Outreach efforts by FSA field offices to promote and inform beginning and minority farmers about FSA funding have resulted in increased lending to these groups.

The 2013 Budget does not request budget authority for subsidized guaranteed farm operating loans. The Budget also only requests funding for the guaranteed conservation loans. The overall loan level for conservation loans is unchanged from the 2012 level.

FSA continues to evaluate the farm loan programs in order to improve their effectiveness. FSA is developing a

nationwide continuing education program for its loan officers to ensure they remain experts in agricultural lending, and transitioning all information technology applications for direct loan servicing into a single, web-based application that will expand on existing capabilities to include all special servicing options. Its implementation will allow FSA to better service its delinquent and financially distressed borrowers. FSA is also working to increase lending to small niche producers and minorities.

### **The Farm Credit System and Farmer Mac**

The Farm Credit System (FCS or System) is a Government-sponsored enterprise (GSE) composed of a nationwide network of borrower-owned cooperative lending institutions originally authorized by Congress in 1916. The FCS’s mission continues to be providing sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives and farm-related businesses.

The financial condition of the System’s banks and associations remains fundamentally sound. Between September 30, 2010, and September 30, 2011, the ratio of capital to assets increased from 15.0 percent to 15.8 percent. Capital consisted of \$32.6 billion of unrestricted capital and \$3.4 billion in restricted capital in the Farm Credit Insurance Fund, which is held by the Farm Credit System Insurance Corporation (FCSIC). For the first nine months of calendar year 2011, net income equaled \$2.99 billion compared with \$2.63 billion for the same period of the previous year. The increase in net income resulted primarily from a decrease in provision for loan losses and an increase in net interest income.

Over the 12-month period ending September 30, 2011, nonperforming loans as a percentage of total loans outstanding decreased from 2.22 percent to 1.94 percent, primarily because of an improvement in the credit quality of loans to borrowers in certain agricultural sectors. System assets grew a moderate 3.2 percent over the past 12 months as growth in the agribusiness portfolio offset declines in loans outstanding for livestock, forestry and ethanol. The number of FCS institutions continues to decrease because of consolidation. As of September 30, 2011, the System consisted of five banks and 84 associations, compared with seven banks and 104 associations in September 2002. Of the 89 FCS banks and associations, 76 had one of the top two examination ratings (1 or 2 on a 1 to 5 scale), 11 FCS institutions had a rating of 3, and 2 FCS institutions had a rating of 4.

Over the 12-month period ending September 30, 2011, the System’s loans outstanding grew by \$2.1 billion, or 1.3 percent, while over the past five years they grew by \$67.4 billion, or 65.2 percent. As required by law, borrowers are also stockholder-owners of System banks and associations. As of September 30, 2011, the System had 488,043 stockholders. Loans to young, beginning, and small farmers and ranchers represented 11.4 percent, 16.0 percent, and 20.4 percent, respectively, of the total dollar volume of all new farm loans made in 2010. All three categories experienced increases in new lending activity during 2010, with the volume of new loans made during the year up

10.3 percent to young farmers, 10.0 percent to small farmers, and 8.6 percent to beginning farmers. Young, beginning, and small farmers are not mutually exclusive groups and, thus, cannot be added across categories. Maintaining special policies and programs for the extension of credit to young, beginning, and small farmers and ranchers is a legislative mandate for the System.

The System, while continuing to record strong earnings and capital growth, remains exposed to a variety of risks associated with its portfolio concentration in agriculture and rural America. While there have been improvements in certain stressed sectors of the rural economy, notably forestry, livestock and ethanol, the weakness in the housing market will continue to stress the forestry sector. The run-up in grain prices that began in the summer of 2010, while benefiting crop producers, continues to negatively influence profit margins for livestock and ethanol producers. As financial markets have improved from the financial crisis, the System has maintained its capacity to issue longer-term debt at extremely low yields. The agricultural sector is also subject to future risks such as a farmland price decline, a rise in interest rates, volatile commodity prices, rising production costs, weather-related catastrophes, and long-term environmental risks related to climate change.

The FCSIC, an independent Government-controlled corporation, ensures the timely payment of principal and interest on FCS obligations on which the System banks are jointly and severally liable. On September 30, 2011, the assets in the Insurance Fund totaled \$3.4 billion. As of September 30, 2010, the Insurance Fund as a percentage of adjusted insured debt was 2.15 percent. This was above the statutory secure base amount of 2 percent. During the first nine months of calendar year 2011, growth in System debt has been negative, at -2.9 percent.

### **Federal Agricultural Mortgage Corporation (Farmer Mac)**

Farmer Mac was established in 1988 as a federally chartered instrumentality of the United States and an institution of the FCS to facilitate a secondary market for farm real estate and rural housing loans. Farmer Mac is not liable for any debt or obligation of the other System institutions, and no other System institutions are liable for any debt or obligation of Farmer Mac. The Farm Credit System Reform Act of 1996 expanded Farmer Mac's role from a guarantor of securities backed by loan pools to a direct purchaser of mortgages, enabling it to form pools to securitize. In May 2008, the Food, Conservation and Energy Act of 2008 (2008 Farm Bill) expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac continues to meet core capital and regulatory risk-based capital requirements. As of September 30, 2011, Farmer Mac's total outstanding program volume (loans purchased and guaranteed, AgVantage bonds purchased and guaranteed, and real estate owned) amounted to \$11.8 billion, recording an increase of 3 percent from the level a year ago. Of total program activity, \$8.3 billion

were on-balance sheet loans and guaranteed securities, and \$3.5 billion were off-balance sheet obligations. Total assets were \$11.4 billion, with non-program investments (including cash and cash equivalents) accounting for \$2.7 billion of those assets. Farmer Mac's net income for the first three quarters of calendar year 2011 was \$0.5 million, a significant decrease from the same period in 2010 during which Farmer Mac reported net income of \$9.6 million. Farmer Mac's earnings are often substantially influenced by unrealized fair value gains and losses. For example, fair value changes on financial derivatives resulted in an unrealized loss of \$82.4 million for the first three quarters of 2011 compared with \$28.5 million for the same period in 2010 (both pre-tax). Although unrealized fair value changes experienced on financial derivatives temporarily impact earnings and capital, those changes are not expected to have any permanent effect if the financial derivatives are held to maturity, as is expected.

### **Energy and Infrastructure Credit Programs**

This Administration is committed to constructing a new foundation for economic growth and job creation, and clean energy is a critical component of that. The general public, as well as individual consumers and owners, benefits from clean energy and well-developed infrastructure. Thus, the Federal Government promotes clean energy and infrastructure development through various credit programs.

#### **Credit Programs to Promote Clean and Efficient Energy**

The Department of Energy (DOE) administers two credit programs that serve to reduce emissions and enhance energy efficiency: a loan guarantee program to support innovative energy technologies and a direct loan program to support advanced automotive technologies.

The DOE's Title 17 loan guarantee program is authorized to issue loan guarantees for projects that employ innovative technologies to reduce air pollutants or man-made greenhouse gases. The program was first provided \$4 billion in loan volume authority in 2007. The 2009 Consolidated Appropriations Act provided an additional \$47 billion in loan volume authority, allocated as follows: \$18.5 billion for nuclear power facilities, \$2 billion for "front-end" nuclear enrichment activities, \$6 billion for new or retrofitted coal-based power facilities equipped with carbon capture and sequestration (CCS) technologies, \$2 billion for advanced coal gasification, and \$18.5 billion for energy efficiency, renewable energy, and transmission and distribution projects. 2011 appropriations effectively reduced the available loan volume authority for energy efficiency, renewable energy, and transmission and distribution projects by \$17 billion and provided \$170 million in credit subsidy to support renewable energy or energy efficient end-use energy technologies. In 2012, Congress provided no new loan authority or credit subsidy for DOE's Title 17 program. The President's 2013 Budget requests no new authority as the program will focus on deploying the remaining resources appropriated in prior years.



The American Reinvestment and Recovery Act of 2009 amended the program's authorizing statute to allow loan guarantees on a temporary basis for commercial or advanced renewable energy systems, electric power transmission systems, and leading edge biofuel projects. The Recovery Act initially provided \$6 billion in new budget authority for credit subsidy costs incurred for eligible loan guarantees. After funds were transferred to support the Department of Transportation's "Cash for Clunkers" program in 2009 and \$1.5 billion was rescinded to offset the Education Jobs and Medicaid Assistance Act in 2010, the program had \$2.5 billion available for credit subsidy. Early solicitations for the guarantee program attracted many projects requesting 100 percent guarantees of DOE-supported loans. Consistent with Federal credit policies, loans with 100 percent guarantees in this program are made through the Federal Financing Bank, and therefore do not involve private sector lenders. The program's "Financial Institutions Partnership Program" solicitation, however, invited private sector lenders to participate whereby DOE would provide guarantees for up to 80 percent of loan amounts financed by private sector financial institutions. This structure utilizes private sector expertise, expedites the lending/underwriting process, and leverages the program's funds by sharing project risks with the private sector, while increasing private sector experience with financing energy technologies. The program also added a new solicitation in 2010 specifically targeting projects in the United States that manufacture renewable energy systems or related components. While the authority for the temporary program to extend new loans expired September 30, 2011, DOE has provided loan guarantees to 28 projects totaling over \$16 billion in guaranteed debt including: 12 solar generation, 4 solar manufacturing, 4 wind generation, 3 geothermal, 2 biofuels, and 3 transmission/energy storage projects.

The DOE's direct loan program, the Advanced Technology Vehicle Manufacturing (ATVM) Direct Loan program, was created to support the development of advanced technology vehicles and associated components in the United States that would improve vehicle energy efficiency by at least 25 percent relative to a 2005 Corporate Average Fuel Economy standards baseline. In 2009, Congress appropriated \$7.5 billion in credit subsidy costs to support a maximum of \$25 billion in loans under ATVM. The program provides loans to automobile and automobile part manufacturers for the cost of re-equipping, expanding, or establishing manufacturing facilities in the United States, and for other costs associated with engineering integration.

### **Electric and Telecommunications Loans**

Rural Utilities Service (RUS) programs of the United States Department of Agriculture (USDA) provide loans for rural electrification, telecommunications, distance learning, telemedicine, and broadband, and also provide grants for distance learning and telemedicine (DLT).

The Budget includes \$6.1 billion in direct loans for electricity distribution, construction of renewable energy facilities, transmission, and carbon capture projects on fa-

cilities to replace fossil fuels. The Budget also provides \$690 million in direct telecommunications loans, \$94 million in broadband loans, \$13 million in broadband grants, and \$25 million in DLT grants.

### **USDA Rural Infrastructure and Business Development Programs**

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

The program level for the Water and Wastewater treatment facility loan and grant program in the 2013 President's Budget is \$1.4 billion. These funds are available to communities of 10,000 or fewer residents. The Community Facility Program is targeted to rural communities with fewer than 20,000 residents. For 2013, it will have a program level of \$2 billion in direct loans and \$25 million in grants.

USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, cooperatives, non-profits, and farmers in creating new community infrastructure (i.e. educational networks or healthcare coops) and to diversify the rural economy and employment opportunities. In 2013, USDA proposes to provide \$821 million in loan guarantees and direct loans to entities that serve communities of 50,000 or less through the Business and Industry guaranteed loan program and communities of 25,000 or less through the Intermediary Relending program. These loans are structured to save or create jobs and stabilize fluctuating rural economies.

The Rural Business Service is responsible for five rural renewable energy and small business programs. The Budget includes \$23 million in funding to support over \$57 million in loans and grants for the following programs: the Rural Microentrepreneur Assistance Program, the Value-Added Agricultural Market Development Grant Program, and the Rural Energy for America Program. These programs are targeted to promote energy efficiencies, renewable energy, and small business development in rural communities.

### **Transportation Infrastructure**

Federal credit programs, offered through the Department of Transportation (DOT), fund critical transportation infrastructure projects, often using innovative financing methods. The two predominant programs are the program authorized by the Transportation Infrastructure Finance and Innovation Act (TIFIA), and the Railroad Rehabilitation and Improvement Financing (RRIF) program.

Established by the Transportation Equity Act of the 21st century (TEA-21) in 1998, the TIFIA program is designed to fill market gaps and leverage substantial private co-investment by providing supplemental and subordinate capital to projects of national or regional significance. Through TIFIA, DOT provides Federal credit



assistance to highway, transit, rail, and intermodal projects. The 25 projects that have received TIFIA credit assistance represent approximately \$33 billion of infrastructure investment in the United States. Government commitments in these partnerships constitute nearly \$8.7 billion in Federal assistance with a budgetary cost of approximately \$611 million.

TIFIA can help advance qualified, large-scale projects that otherwise might be delayed or deferred because of size, complexity, or uncertainty over the timing of revenues at a relatively low budgetary cost. Each dollar of subsidy provided for TIFIA can provide approximately \$10 in credit assistance, and leverage up to \$30 in transportation infrastructure investment. In recent years the demand for the TIFIA program has exceeded available resources. In 2013, the President's Budget requests additional budget resources for the TIFIA program to meet growing demand. At the requested level, TIFIA could provide approximately \$5 billion in credit support for up to \$15 billion in new infrastructure projects. This funding will accelerate critical transportation improvements and attract private investment by lowering financing costs and mitigating market imperfections.

DOT has provided direct loans and loan guarantees to railroads since 1976 for facilities maintenance, rehabilitation, acquisitions, and refinancing. Federal assistance was created to provide financial assistance to the financially-challenged portions of the rail industry. However, following railroad deregulation in 1980, the industry's financial condition began to improve, larger railroads were able to access private credit markets, and interest in Federal credit support began to decrease.

Also established by TEA-21 in 1998, the RRIF program provides loans with an interest rate equal to the Treasury rate for similar-term securities. TEA-21 also provided that non-Federal sources pay the subsidy cost of the loan, thereby allowing the program to operate without Federal subsidy appropriations. The RRIF program assists projects that improve rail safety, enhance the environment, promote economic development, or enhance the capacity of the national rail network. While refinancing existing debt is an eligible use of RRIF proceeds, capital investment projects that would not occur without a RRIF loan are prioritized.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) increased the amount of total RRIF assistance available from \$3.5 billion to \$35 billion, and the Rail Safety Improvement Act (RSIA) extended the maximum loan term from 25 to 35 years. Since enactment of TEA-21, nearly \$800 million in direct loans have been made under the RRIF program. Due to the recent disruptions in the credit markets caused by the financial crisis, the RRIF program has seen renewed interest from the railroad industry – both traditional short-line railroads and commuter rail operators – as a means of project financing.

## International Credit Programs

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

### Leveling the Playing Field

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

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

### Stabilizing International Financial Markets

Consistent with U.S. obligations in the International Monetary Fund regarding global financial stability, the Exchange Stabilization Fund managed by the Department of the Treasury may provide loans or credits to a foreign entity or government of a foreign country. A loan or credit may not be made for more than six months in any 12-month period unless the President gives the Congress a written statement that unique or emergency circumstances require that the loan or credit be for more than six months.

### Using Credit to Promote Sustainable Development

Credit is an important tool in U.S. bilateral assistance to promote sustainable development. USAID's Development Credit Authority (DCA) allows USAID to use a variety of credit tools to support its development activities abroad. DCA provides non-sovereign loan guarantees in targeted

cases where credit serves more effectively than traditional grant mechanisms to achieve sustainable development. DCA is intended to mobilize host country private capital to finance sustainable development in line with USAID's strategic objectives. Through the use of partial loan guarantees and risk sharing with the private sector, DCA stimulates private-sector lending for financially viable development projects, thereby leveraging host-country capital and strengthening sub-national capital markets in the developing world.

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

### Ongoing Coordination

International credit programs are coordinated through two groups to ensure consistency in policy design and cred-

it implementation. The Trade Promotion Coordinating Committee (TPCC) works within the Administration to develop a National Export Strategy to make the delivery of trade promotion support more effective and convenient for U.S. exporters.

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

### Promoting Economic Growth and Poverty Reduction through Debt Sustainability

The Enhanced Heavily Indebted Poor Countries (HIPC) Initiative reduces the debt of some of the poorest countries with unsustainable debt burdens that are committed to economic reform and poverty reduction.

## III. INSURANCE PROGRAMS

### Deposit Insurance

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

Today, the Federal Deposit Insurance Corporation (FDIC) insures deposits in banks and savings associations (thrifts) using the resources available in its Deposit Insurance Fund (DIF). The National Credit Union Administration (NCUA) insures deposits (shares) in most credit unions (certain credit unions are privately insured) using the resources available in the National Credit Union Share Insurance Fund (SIF). As of September 30, 2011, the FDIC insured \$6.8 trillion of deposits at 7,436 commercial banks and thrifts, and the NCUA insured \$786 billion of shares at 7,179 credit unions.

Since its creation, the deposit insurance system has undergone a series of reforms. The Dodd-Frank Wall Street Reform and Consumer Protection (Wall Street Reform) Act, enacted July 21, 2010, allows the FDIC to more effectively and efficiently manage the DIF. The Act authorized the FDIC to set the minimum DIF reserve ratio (ratio of the deposit insurance fund to total insured deposits) to 1.35 percent by 2020, up from 1.15 percent. In addition

to raising the minimum reserve ratio, the Wall Street Reform Act also:

- Eliminated the FDIC's requirement to rebate premiums when the reserve ratio is between 1.35 and 1.5 percent;
- Gave the FDIC discretion to suspend or limit rebates when the DIF reserve ratio is at least 1.5 percent, effectively removing the 1.5 percent cap on the DIF; and
- Required the FDIC to offset the effect on small insured depository institutions (defined as banks with assets less than \$10 billion) when setting assessments to raise the reserve ratio from 1.15 to 1.35 percent.

In order to implement the Wall Street Reform Act, the FDIC has issued a final rule setting a long-term (greater than 10 years) reserve ratio target of 2 percent, with the goal of maintaining a positive fund balance during economic crises and maintaining a moderate, steady long-term assessment rate that provides transparency and predictability to the banking sector. This rule, coupled with other provisions of the Wall Street Reform Act, will significantly improve the FDIC's capacity to resolve bank failures and maintain market stability during economic downturns.

The Wall Street Reform Act also permanently increased the insured deposit level to \$250,000 per account at banks or credit unions insured by the FDIC or NCUA.

## Recent Performance of the Federal Deposit Insurance Funds

For the quarter ending June 30, 2011, the fund balance of DIF stood at \$3.9 billion on an accrual basis, representing the first quarter since June 2009 that the fund had a positive balance. The DIF fund balance nearly doubled to \$7.8 billion as of September 30, 2011, which is equivalent to a reserve ratio of 0.12 percent, or \$83.7 billion below the level that would meet the minimum target reserve ratio. The growth in the DIF fund balance is a result of fewer bank failures and higher assessment schedules. In each of the three calendar quarters of 2011, assessments earned have exceeded the provision for loan losses.

As of September 30, 2011, the number of insured institutions on the FDIC's "problem list" (institutions with the highest risk ratings) decreased to 844 institutions. Although this number represents only a 2 percent decrease from that in September 2010, the assets held by problem institutions decreased by 11 percent.

The SIF ended September 2011 with assets of \$12 billion and an equity ratio of 1.31 percent, which is slightly above the NCUA normal operating ratio of 1.30, set by the NCUA Board. If the equity ratio increases above the normal operating level, a distribution is normally paid to member credit unions. The Budget estimates a \$130 million distribution to the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) in 2012, which was created under the authority of the Helping Families Save Their Homes Act of 2009 (P.L. 111-22). Under this Act, distributions are paid to the TCCUSF when this fund has an outstanding loan from the U.S. Treasury, which at September 30, 2011 totaled \$3.5 billion.

The losses in the credit union industry appear to be on a decline. The ratio of insured shares in "problem institutions" to total insured shares has decreased to 3.9 percent in September 2011 from a high of 5.7 percent in December 2009. As of September 2011, the SIF has set aside \$1.0 billion in reserves to cover potential losses, less than the \$1.2 billion set-aside as of September 2010. There has also been a decline in GAAP-based losses, from \$912 million for FY 2010 to nearly zero for FY 2011.

The NCUA also administers the Central Liquidity Facility (CLF), which serves as a back-up lender for credit unions when market sources of liquidity are unavailable. By statute, the CLF is authorized to borrow up to 12 times its subscribed capital stock and surplus. As of 2011, this would allow the CLF to borrow up to approximately \$50 billion. Throughout the economic crisis, liquidity advances into the corporate credit union system totaled \$19.5 billion, all of which was repaid by December 2010. The CLF did not borrow in 2011, due in part to the creation of the TCCUSF in 2009. The TCCUSF has access to \$6 billion in borrowing authority, which is reduced proportionally by any borrowings potentially made by the SIF. This borrowing authority serves as a resource available to the NCUA to support the corporate credit union system. In 2011, TCCUSF has net borrowings of \$3.5 billion to support the Corporate System Resolution Program

(CSRP), which was created in September 2010. The CSRP is a multi-stage plan for stabilizing the corporate credit union system, providing short-term and long-term funding to resolve a portfolio of residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities and corporate bonds (collectively referred to as the Legacy Assets) held by the failed corporate credit unions, and establishing a new regulatory framework for corporate credit unions. Under the CSRP, NCUA created a re-securitization program to provide long-term funding for the Legacy Assets through the issuance of NCUA Guaranteed Notes (NGNs), which has re-securitized nearly \$30 billion in legacy assets to date. The NGNs require the long-term monitoring, managing, and reporting on very complex transactions for at least the next 10 years. Accordingly, NCUA is working on a long-term, stream-lined solution to oversee the daily requirements and activities in connection with the NGN Program.

## Restoration Plans

Pursuant to the Wall Street Reform Act, the restoration period for the DIF reserve ratio to reach 1.35 percent was extended to 2020 (prior to the Act, the DIF reserve ratio was required to reach the minimum target of 1.15 percent by the end of 2016). The Budget projects that the DIF reserve ratio will slip back into negative territory in the near term, driven in part by updated modeling estimates of future bank failures and a constant assessment schedule, which slows down the DIF reserve growth rate. However, the DIF's reserve ratio is expected to rebound and become positive in 2015, reaching the statutorily required 1.35 percent level by 2020. In late 2009, the FDIC Board of Directors adopted a final rule requiring insured institutions to prepay quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. The FDIC collected approximately \$45 billion in prepaid assessments. Unlike a special assessment, the prepaid assessments will not immediately affect bank earnings; it is booked as an asset and amortized each quarter by that quarter's assessment charge. This prepaid assessment, coupled with annual assessments on the banking industry, will provide the FDIC with ample operating cash flow to effectively and efficiently resolve bank failures during the short period the Budget projects the DIF balance to be negative. Although the FDIC has authority to borrow up to \$100 billion from Treasury to maintain sufficient DIF balances, the Budget does not anticipate FDIC utilizing their borrowing authority because the DIF is projected to maintain positive operating cash flow over the entire 10-year Budget horizon.

For FY 2010 and FY 2011, the NCUA Board approved assessments of \$727 million and \$930 million respectively on federally insured credit unions in order to maintain the target equity ratio of 1.30 percent. With the equity ratio slightly above the target, the Budget does not anticipate assessments on federally insured credit unions in FY 2012 and FY 2013. The Budget reflects NCUA targeting an equity ratio of 1.3 percent over the next ten years.



## Budget Outlook

The Budget estimates DIF net outlays of -\$199.0 billion (i.e. net inflows into the fund) over the 10-year Budget window. The projected inflows are larger than the 2012 Mid-Session Review (MSR) projection by \$59 billion, as increases in projected premium collections outweigh increases in projected resolution costs. The latest public data on the banking industry led to an upward revision to bank failure estimates, which are consistent with long-term, historical averages in terms of failed bank assets as a percentage of GDP. With the bank failure projection increased, the Budget projects much higher FDIC premiums, which are necessary for the FDIC to reach the minimum Wall Street Reform Act DIF reserve ratio of 1.35 percent. The higher premiums will disproportionately affect the largest banking institutions, as nearly 70 percent of the assessment base is concentrated in the banks with over \$50 billion in assets.

## Pension Guarantees

The Pension Benefit Guaranty Corporation (PBGC) insures the pension benefits of workers and retirees in covered defined-benefit pension plans. PBGC pays benefits, up to a guaranteed level, when a company's plan closes without enough assets to pay future benefits. PBGC's claims exposure is the amount by which qualified benefits exceed assets in insured plans. In the near term, the risk of loss stems from financially distressed firms with underfunded plans. In the longer term, loss exposure results from the possibility that healthy firms become distressed

and well-funded plans become underfunded due to inadequate contributions, poor investment results, or increased liabilities.

PBGC monitors companies with underfunded plans and acts to protect the interests of the pension insurance program's stakeholders where possible. Under its Early Warning Program, PBGC works with companies to strengthen plan funding or otherwise protect the insurance program from avoidable losses. However, PBGC's authority to prevent undue risks to the insurance program is limited. Most private insurers can diversify or reinsure their catastrophic risks as well as flexibly price these risks. Unlike private insurers, PBGC cannot deny insurance coverage or adjust premiums according to risk. PBGC's premiums are set in statute.

Claims against PBGC's insurance programs are highly variable. A single large pension plan termination may result in a larger claim against the Corporation than the termination of many smaller plans. Future results will continue to depend largely on the infrequent and unpredictable termination of a limited number of very large plans.

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

As of September 30, 2011, the single-employer and multi-employer programs reported deficits of \$23.3 billion and \$2.8 billion, respectively. Notwithstanding

**Table 23-1. TOP 10 FIRMS PRESENTING CLAIMS (1975-2011)**

Single-Employer Program

Firm	Fiscal Year(s) of Plan Termination(s)	Claims (by firm)	Percent of Total Claims (1975-2011)
1 United Airlines .....	2005	\$7,347,077,849	16.09%
2 Delphi .....	2009	6,387,323,184	13.99%
3 Bethlehem Steel .....	2003	3,702,771,655	8.11%
4 US Airways .....	2003, 2005	2,751,534,173	6.02%
5 LTV Steel * .....	2002, 2003, 2004	2,134,985,884	4.67%
6 Delta Air Lines .....	2006	1,720,156,504	3.77%
7 National Steel .....	2003	1,275,628,286	2.79%
8 Pan American Air .....	1991, 1992	841,082,434	1.84%
9 Trans World Airlines .....	2001	668,377,106	1.46%
10 Weirton Steel .....	2004	640,480,970	1.40%
Top 10 total .....		\$27,469,418,046	60.15%
All other total .....		18,202,055,547	39.85%
Total .....		\$45,671,473,593	100.00%

Sources: PBGC Fiscal Year Closing File (9/30/11), PBGC Case Management System, and PBGC Participant System (PRISM).

Due to rounding of individual items, numbers and percentages may not add up to totals.

Data in this table have been calculated on a firm basis and, except as noted, include all trustee plans of each firm.

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

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



these deficits, the Corporation has \$81 billion in assets and will be able to meet its obligations for a number of years. However, neither program has the resources to fully satisfy PBGC's obligations in the long run. PBGC estimates its long-term loss exposure to reasonably possible terminations (e.g., underfunded plans sponsored by companies with credit ratings below investment grade) at approximately \$250 billion. For FY 2011, exposure was concentrated in the following sectors: manufacturing (primarily automobile/auto parts and primary and fabricated metals), transportation (primarily airlines), services, and wholesale and retail trade.

The 2013 Budget proposes to give the PBGC Board the authority to adjust premiums to better account for the risk the agency is insuring. This proposal would raise much-needed revenue for PBGC while providing incentives for firms to improve plan funding so they can keep their pension promises.

The proposal consists of two parts: 1) a gradual increase in the single-employer flat-rate premium that will raise approximately \$4 billion by 2022 and 2) PBGC Board discretion to increase the single-employer variable-rate premium to raise \$12 billion by 2022. Under the proposal, the flat-rate premium would increase from its current level of \$35 per participant to \$40 per participant in 2014. Each year, the premium would increase incrementally until it reached \$71 in 2022. The premium would be indexed to average wages in each year thereafter.

Beginning in fiscal year 2014, the Board would be given discretion to increase variable-rate premiums, which are based on plan underfunding. Currently, premiums are set at \$9 per \$1,000 of underfunding. Under the proposal, two-thirds of the Board would have to certify that changes to the variable premium schedule would be enough to generate at least \$12 billion through 2022. If the Board were unable to certify the premium schedule, it would be required to make adjustments to ensure the minimum revenue of \$12 billion. The Board would be prohibited from raising premiums to generate more than \$13 billion. In determining variable-rate premiums, the Board would consider a number of factors, including a plan's risk of losses to PBGC, the amount of a plan's possible claims, and other factors the Board's directors determine appropriate. In addition, the Board would be required to consult with stakeholders prior to setting a new premium schedule and would also establish a hardship waiver and other limitations on plan-specific premium increases. PBGC would be required to publish a notice of its determination in the Federal Register, including the basis for the determination and the amount of the expected increase in income.

This proposal would save \$16 billion over the next decade.

## Disaster Insurance

### Flood Insurance

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP),

which is administered by the Federal Emergency Management Agency of the Department of Homeland Security (DHS). Flood insurance is available to homeowners and businesses in communities that have adopted and enforce appropriate flood plain management measures. Coverage is limited to buildings and their contents. By the end of 2010, the program had over 5.6 million policies in more than 20,200 communities with over \$1 trillion of insurance in force.

Prior to the creation of the program in 1968, many factors made it cost prohibitive for private insurance companies alone to make affordable flood insurance available. In response, the NFIP was established to make affordable insurance coverage widely available. The NFIP requires building standards and other mitigation efforts to reduce losses, and operates a flood hazard mapping program to quantify geographic variation in the risk of flooding. These efforts have made substantial progress. However, structures built prior to flood mapping and NFIP flood-plain management requirements, which make up 20.5 percent of the total policies in force, pay less than fully actuarial rates.

A major DHS goal is to have property owners be compensated for flood losses through flood insurance, rather than through taxpayer-funded disaster assistance. The agency's marketing strategy aims to increase the number of Americans insured against flood losses and improve retention of policies among existing customers. The strategy includes:

1. Providing financial incentives, to the private insurers that sell and service flood policies for the Federal Government, to expand the flood insurance business.
2. Conducting the national marketing and advertising campaign, FloodSmart, which uses TV, radio, print and online advertising, direct mailings, and public relations activities to help overcome denial and resistance and increase demand.
3. Fostering lender compliance with flood insurance requirements through training, guidance materials, regular communication with lending regulators and the lending community.
4. Conducting NFIP training for insurance agents via instructor-led seminars, online training modules, and other vehicles.
5. Seek opportunities to simplify and clarify NFIP processes and products to make it easier for agents to sell and consumers to buy.

While these strategies have resulted in steady policy growth over recent years, the growth slowed what since 2009 due to the severe downturn in the economy. In 2011, the program lost 20,000 policies.

DHS also has a multi-pronged strategy for reducing future flood damage. The NFIP offers flood mitigation as-

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

Due to the catastrophic nature of flooding, with Hurricane Katrina as a notable example, insured flood damages far exceeded premium revenue in some years and depleted the program's reserve account, which is a cash fund. On those occasions, the NFIP has to borrow funds from the Treasury in order to meet flood insurance claim obligations. While the program needed appropriations in the early 1980s to repay the funds borrowed during the 1970's, it was able to repay all borrowed funds with interest using only premium dollars between 1986 and 2004. In 2005, however, Hurricanes Katrina, Rita, and Wilma generated more flood insurance claims than the cumulative number of claims from 1968 to 2004. Events of 2005 resulted in over 213,000 paid claims with total claims payments expected to be nearly \$18 billion. As a result, the Administration and the Congress have increased the borrowing authority to \$20.8 billion to date in order to make certain that all claims could be paid. The debt is currently \$17.75 billion.

The catastrophic nature of the 2005 hurricane season has also triggered an examination of the program, and the Administration is working with the Congress to improve the program. FEMA engaged in a multi-stage process designed to involve stakeholders and consider a range of policy options to reform the NFIP. FEMA believes this important process will ensure that the program efficiently and effectively meets the needs of the public. FEMA established guiding principles for the reform to provide the foundation for any proposed policy solution. These principles are: protect lives, property, and environmental and cultural assets; motivate people to voluntarily participate in reducing society's risk; make the best use of public resources; ensure selection of an adoptable and sustainable policy; consider notions of equity with regard to risk and socioeconomic status; and recognize and consider the governance and responsibility of states, communities and tribes as a means to achieve sustainability and resiliency.

### Crop Insurance

Subsidized Federal crop insurance administered by USDA's Risk Management Agency (RMA) assists farmers in managing yield and revenue shortfalls due to bad weather or other natural disasters. The program is a co-

operative effort between the Federal Government and the private insurance industry. Private insurance companies sell and service crop insurance policies. These companies rely on reinsurance provided by the Federal Government and also by the commercial reinsurance market to manage their individual risk portfolio. The Federal Government reimburses private companies for a portion of the administrative expenses associated with providing crop insurance and reinsures the private companies for excess insurance losses on all policies. The Federal Government also subsidizes premiums for farmers.

Standard Reinsurance Agreement (SRA) negotiations were formally completed on July 12, 2010, with the signing of the 2011 SRA by all insurance providers that had been approved for the 2010 reinsurance year. The resulting SRA produced a net \$4 billion in deficit reductions, and was fully implemented over the most recent crop year.

The 2013 Budget continues to block spending for a good performance refund (GPR) program, which is projected to save \$75 million per year. The GPR would have provided a refund of a portion of the farmer paid premium to producers who had a favorable loss experience. Producer premiums are already highly subsidized by taxpayers, and the Administration does not believe that providing an additional premium refund is warranted.

The 2013 Budget also maintains support for policies recommended to the Joint Committee for Deficit Reduction, which included four crop insurance proposals:

1. Lower the cap for the crop insurance companies' return on investment to 12 percent,
2. Lower the cap on the companies' administrative expense reimbursement to \$0.9 billion, adjusted annually for inflation,
3. More accurately price the premium for catastrophic coverage, and
4. Lower subsidy for producer premiums by 2 percentage points for policies where the Government subsidizes more than 50 percent of the premium.

The most basic type of crop insurance is catastrophic coverage (CAT), which compensates the farmer for losses in excess of 50 percent of the individual's average yield at 55 percent of the expected market price. The CAT premium is entirely subsidized, and farmers pay only an administrative fee. Higher levels of coverage, called "buy-up", are also available. A premium is charged for buy-up coverage. The premium is determined by the level of coverage selected and varies from crop to crop and county to county. For 2011, the 10 principal crops, (barley, corn, cotton, grain sorghum, peanuts, potatoes, rice, soybeans, tobacco, and wheat) accounted for over 87 percent of total liability, and 78 percent of total U.S. planted acres of the 10 crops were covered by crop insurance. RMA offers both yield and revenue-based insurance products. Revenue insurance programs protect against loss of revenue stem-

ming from low prices, poor yields, or a combination of the two. These programs extend traditional multi-peril or yield crop insurance by adding price variability to production history.

RMA is continuously working to develop new products and to expand or improve existing products in order to cover more agricultural commodities. In 2011, RMA received 4 section 522(b) Concept Proposal submissions, which are in various stages of review. The Federal Crop Insurance Act and Federal Crop Insurance Corporation (FCIC) corresponding procedures allow for an advance payment of up to 50 percent of expected reasonable research and development costs for FCIC Board approved Concept Proposals prior to the complete submission of the policy or plan of insurance under section 508(h) of the Act. Nine privately developed proposals were submitted to the Board under section 508(h) as of December 2011.

Pasture, Rangeland, and Forage Pilot Programs are based on vegetation greenness and rainfall indices to meet the needs of livestock producers who purchase insurance protection for losses of forage produced for grazing or harvested for hay. In 2011, there were 13,420 vegetation and rainfall policies sold, covering over 34 million acres of pasture, rangeland and forage. There was over \$520 million in liability, and to date nearly \$152 million in indemnities paid to livestock producers who purchased coverage.

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

### **Insurance against Security-Related Risks**

#### **Terrorism Risk Insurance**

The Terrorism Risk Insurance Program (TRIP) was authorized under P.L. 107-297 to help stabilize the insurance industry following the terrorist attacks of September 11, 2001. Initially, TRIP was a three-year Federal program that provided a system of shared public and private compensation for insured commercial property and casualty losses arising from certified acts of foreign terrorism. In 2005, Congress passed a two-year extension (P.L. 109-144), which narrowed the Government's role by increasing the private sector's share of losses, reducing lines of insurance covered by the program, and adding a threshold event amount triggering Federal payments.

In 2007, Congress extended TRIP for an additional seven years (P.L. 110-318) and expanded the program to include losses from domestic as well as foreign acts of terrorism. For all seven extension years, however, it maintains a private insurer deductible of 20 percent of the prior year's direct earned premiums, an insurer co-payment of 15 percent of insured losses above the deductible, and a \$100 million event trigger amount for Federal payments. The 2007 extension also requires Treasury to recoup 133 percent of the Federal payments made under the program, and accelerates deadlines for recoupment of any Federal payments made before September 30, 2017.

The Budget baseline includes the estimated Federal cost of providing terrorism risk insurance, reflecting the

2007 extension of the TRIP through 2014. Using market driven data, the Budget projects annual outlays and recoupment for TRIP. While the Budget does not forecast any specific events, the estimates for this account represent the weighted average of TRIP payments over a full range of possible scenarios, most of which include no notional terrorist attacks (and therefore no TRIP payments), and some of which include notional terrorist attacks of varying magnitudes. On this basis, the Budget projects net spending of \$584 million over the 2013-2017 period and \$780 million over the 2013-2022 period.

#### **Airline War Risk Insurance**

After the September 11, 2001 attacks, private insurers cancelled third-party liability war risk coverage for airlines and dramatically increased the cost of other war risk insurance. In addition to a number of short term responses, the Congress passed the Homeland Security Act of 2002 (P.L. 107-296). Among other provisions, this Act required the Secretary of Transportation to provide additional war risk insurance coverage for hull losses and passenger liability to air carriers insured for third-party war risk liability as of June 19, 2002. Congress has continually extended this requirement, most recently in Surface and Air Transportation Programs Extension Act of 2011 (P.L. 112-30). Acting on behalf of the Secretary, the FAA has made available insurance coverage for (i) hull losses at agreed value; (ii) death, injury, or property loss liability to passengers or crew, the limit being the same as that of the air carrier's commercial coverage as of November 25, 2002; and (iii) third party liability, the limit generally being twice that of the air carrier's commercial coverage as of November 25, 2002. The Secretary is also authorized to limit an air carrier's third party liability to \$100 million, when the Secretary certifies that the loss is from an act of terrorism.

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

Currently, 55 air carriers are insured by the Department of Transportation. Coverage for individual carriers ranges from \$100 million to \$4 billion per carrier, with the median insurance coverage at approximately \$1.5 billion per occurrence. Premiums collected by the Government for these policies are deposited into the Aviation Insurance Revolving Fund. In 2011, the Fund collected approximately \$196 million in premiums for insurance provided by DOT. At the end of 2011, the balance in the Aviation Insurance Revolving Fund available for payment of future claims was \$1.7 billion. The balance in the Fund would be inadequate to meet either the coverage limits of the largest policies in force (\$4 billion) or to



meet a series of large claims in succession. The Federal Government would pay any claims by the airlines that exceed the balance in the Aviation Insurance Revolving Fund. Therefore, the Administration's goal is to incentivize the commercial marketplace to underwrite most, al-

though not all, aviation war risks. Now that commercial underwriters are expressing a stronger interest in writing small policies with limited exposure to war risks, the Budget proposes to establish a \$150 million deductible for hull and liability exposure in all FAA War Risk policies.

#### IV. TOPICS FOR IN-DEPTH ANALYSES

##### Fair Value Budgeting for Credit Programs

The Federal Credit Reform Act of 1990, as amended (FCRA), improved budgeting for Federal credit programs by requiring agencies to budget for the estimated cost to the Government on a net present value basis. The main goals of FCRA are to more accurately measure the costs of credit programs, to improve the allocation of Federal resources, and to make credit program cost estimates comparable to those in other programs, such as grants. Some have raised concerns that FCRA cost estimates are not a comprehensive estimate of the cost to taxpayers, and propose adoption of "fair value" cost estimates as an alternative measure. A fair value cost estimate would be based on the price investors would be willing to pay in a voluntary and orderly transaction in a liquid market.

Any change to credit program cost estimates should be consistent with the goals articulated by FCRA. Fair value is a complex concept; it merits further analysis to determine whether changes to budgetary treatment to align the costs of credit programs with fair value would be consistent with these goals. This section explores both theoretical and practical issues surrounding fair value. The challenges in both dimensions are significant.

To choose the right uses of Federal resources, policymakers need accurate measures of the social benefit and social cost of each potential use. The Federal budget estimates the dollar amount of Federal resources needed to carry out each program. In most cases, including but not limited to Federal credit programs, however, the full social costs differ from the budgetary cost.

Budget estimates reflecting social costs could facilitate resource allocation decisions. In some cases, the price that is observed or would prevail in a well-functioning market may be closer to the social cost than what is currently recorded in the budget as the cost to the Government. This price, which is commonly called fair value, reflects the preference and willingness of market participants to pay for the commodity or the asset of interest. For commodities and assets that do not trade in the market, fair value can be estimated with varying degrees of accuracy.

It is debatable whether aligning budgetary costs with social costs would improve resource allocation, even if it could be done successfully. Resource allocation should be based on cost-benefit analyses, weighing the social benefit of each program against its social cost. Tying budget estimates to social costs goes a step further. When budgetary estimates focus on the accuracy and transparency of costs to the Government, policy decisions can still be guided by more comprehensive analyses incorporating social costs and benefits.

Under the FCRA, the cost of direct loans and loan guarantees is the net present value of estimated cash flows to and from the Government, excluding administrative costs. For direct loans, the cost equals loan disbursements minus the present value of anticipated repayments net of default, recoveries, and fees. For loan guarantees, the cost equals the present value of any guarantee claims minus the present value of fees paid to the Government and estimated recoveries. Estimated cash flows adjusted for expected losses are discounted by Treasury rates of comparable maturity.

The current FCRA method for estimating cost provides a different measure of cost than the fair value method, which takes different risks and costs into account. To calculate fair value, cash flows unadjusted for expected losses would be discounted with a market interest rate that reflects the characteristics of the cash flows of the loan or loan guarantee (comparable market rate), instead of Treasury rates. The comparable market rate would differ from the maturity-matched Treasury rate in most cases and vary across credit programs, and even across individual loans and guarantees in some cases.

Fair value is conceptually appealing in that it reflects closely the preferences of market participants. It is debatable, however, whether fair value estimates for credit programs also represent the preferences of taxpayers and the society as a whole. In addition to this conceptual issue, several practical and implementation issues would need to be carefully considered in evaluating fair value proposals. Key issues include: how to develop accurate estimation methods; comparability of cost estimates across programs; and whether agencies would be able to implement fair value, particularly given limited administrative resources. A fair value proposal that does not address these conceptual and practical issues would probably fail to improve resource allocation and could even be counterproductive.

##### Treasury Rates versus Market Interest Rates

A key determinant of the estimated cost of credit programs is the discount rate of future cash flows. The market interest rate on a private loan depends on various factors, most of which are not reflected in the Treasury rate. Those factors are:

- Time preference (present versus future, included in FCRA cost estimate)
- Expected loss from default (included in FCRA cost estimate)
- Compensation for uncertain returns - uncertainty premium



- Compensation for lower liquidity - liquidity premium
- Cost of administering the loan
- Tax rate on the interest income
- Contract terms determining lenders' and borrowers' rights.

This decomposition of market rates helps to identify the factors that make fair value estimates different from current FCRA estimates, and determine whether those factors are as relevant to taxpayers as they are to investors. When the Government lends money, the taxpayer has a stake in the loan repayment that is similar, but not identical to the stake an investor has in its loan portfolio. When the borrower of a privately-held loan defaults, investors suffer a financial loss that will impact how much they can consume or leave to their heirs. When the borrower of a Government loan defaults, the Government suffers a financial loss that may eventually require it to cut Government programs or raise taxes, either way impacting the value taxpayers get for their money. While investors and taxpayers face a similar situation in that regard, there are also some differences in their situation that make some of the elements of fair value less relevant to taxpayers than they are to investors.

Time preference, reflecting the higher value that people give to money received now than to money received in the future, is incorporated in both Treasury rates and market rates. The difference between the Treasury rate and the comparable market rate (yield spread) reflects all other factors. The FCRA, however, fully accounts for the expected loss from default by deducting the expected amounts of default from future cash flows, in lieu of discounting with a higher rate. The factors other than the time preference and the expected loss from default are not currently part of the FCRA budgetary cost but would be part of a fair value estimate. The following describes each of those elements and discusses their relevance to taxpayers.

### ***Uncertainty Premium***

The uncertainty premium is an extra expected return that investors demand as compensation for uncertain returns. (See the box below, "Uncertainty Premiums: Diversifying across Assets and Distributing among a Large Number of Investors," for detailed discussions of key issues and numerical examples.) For a debt instrument, two main sources of uncertainty are default risk and interest rate risk. Long-term debt is subject to interest rate risk because its value changes with the prevailing interest rate. Both the comparable market rate and the Treasury rate reflect the uncertainty premium arising from interest rate risk. The uncertainty premium arising from default risk, on the other hand, is reflected in the comparable market rate but not in the Treasury rate because Treasury securities are considered to be free of default risk.

Federal credit programs face default risk which results in uncertain returns to taxpayers. If uncertainty is undesirable to private investors, it may also be undesirable

to taxpayers. Then shouldn't the Government, on behalf of taxpayers, demand the uncertainty premium arising from default risk? Notwithstanding the parallels between taxpayers and investors, there are two main reasons why the uncertainty premium might be less relevant or irrelevant to taxpayers: the Government has a superior ability to diversify risk across assets because it engages in various activities; and the Government can distribute risk among a large number of taxpayers to the extent that per-taxpayer uncertainty becomes negligible. There are also counter-arguments: in advanced financial markets, private investors may have effective tools, such as mutual funds and insurance, to diversify risk to the same extent as the Government does; and the portion of risk tied to economy-wide outcomes cannot be reduced much by distributing among a large number of taxpayers. The relevance of these arguments depends on the characteristics of Government programs, especially the type of uncertainty that they face. As discussed in the box, the portion of the uncertainty premium relevant to taxpayers is complex to determine and may vary across programs.

### ***Liquidity Premium***

To hold an illiquid asset, investors have to sacrifice the flexibility to sell it quickly or accept a below-market price in doing so. Thus, they demand a higher interest rate, a "liquidity premium," if an asset is less liquid. The yield spread reflects a liquidity premium because most private assets are less liquid than Treasury securities, which trade in the most liquid market. This component is irrelevant to taxpayers. Even though a Federal loan itself may be illiquid, the illiquidity of the loan does not restrict other activities of the Government which can easily borrow in the Treasury securities market at a minimal transaction cost. The Government and hence taxpayers benefit from the high liquidity of the Treasury securities market without incurring an extra cost.

### ***Tax Differential***

Interest income from Treasury securities is exempt from State income tax. This tax advantage results in a higher spread between Treasuries and private interest rates; investors in private loans will demand a higher before-tax return to compensate for the impact that State taxes have on their after-tax return. The Treasuries' tax advantage lowers the cost to the Government of financing direct loans. But that same tax advantage results in lost tax revenue at the State level, which may ultimately have to be made up by taxpayers. Thus, unlike the liquidity premium, this may not be a costless benefit.

### ***Prepayment Risk***

Among many contract terms affecting the interest rate, the borrower's option to prepay the loan may be the most important feature present in both private and Federal loan contracts. If borrowers are allowed to prepay without a penalty, lenders need to be compensated with a higher interest rate. Borrowers want to refinance when the market interest rate is low to benefit from the lower payments. Thus, the prepayment rate is likely to be higher

when the market interest rate is lower and vice versa. Investors will receive more funds than expected when they have only low-return alternatives in which to invest those funds.

This component is relevant to taxpayers, but probably to a lesser extent than to investors. If prepayment is negatively related with the market interest rate, an above-average prepayment rate decreases the Government's funding need when the borrowing cost is lower, while a below-average prepayment rate increases it when the borrowing cost is higher. Thus, prepayment risk (variability of prepayment, as opposed to the expected amount which is already considered in FCRA cash flow estimates) can similarly affect taxpayers and investors. Some characteristics of Federal loans, however, make prepayment risk less relevant. Some Federal credit programs impose a prepayment penalty. In addition, most Federal loans are more attractive than private loans, regardless of the official subsidy rate. Thus, at a given interest rate, many borrowers who would prepay a private loan might not prepay a Federal loan, except in situations where the Government itself offers a lower cost alternative.

### ***Administrative Costs***

Lending involves various administrative costs, related to loan processing, servicing, and debt collection, that are necessary to preserve the value of the loan portfolio. Since the Government cannot avoid these costs, this component is relevant to taxpayers. Currently the budget includes the administrative costs of running credit programs on a cash basis separately from the credit subsidy, consistent with all other Federal administrative costs.

### ***Estimating the Fair Rate of Return for Taxpayers***

As shown in the previous section, some of the factors determining fair value are less relevant to taxpayers than they are to investors. Thus, in most cases, a fair rate of return for taxpayers – one that compensates taxpayers for the relevant costs associated with credit programs – would equal neither the Treasury nor the market rate of return. The fair rate of return would equal the Treasury rate plus the portion of the yield spread that is relevant to taxpayers. Since the yield spread consists of several components with differing relevance to taxpayers, it is necessary to estimate the contribution of each component to separate out the relevant portion of the yield spread. Of these components, the uncertainty premium is the most challenging to estimate properly. There are some established methods to calculate the uncertainty premium and other components, but all of them have weaknesses.

### ***Capital Asset Pricing Model***

The Capital Asset Pricing Model (CAPM) offers the most standard method to calculate the uncertainty premium directly. In the CAPM, the required return on an asset is the risk-free rate of return plus an uncertainty premium which increases with the co-movement between the return on the asset and the economy-wide return, representing a composite return on all assets available for investment. The uncertainty premium is calculated based

on the risk-free rate of return, the economy-wide return, the variance of the economy-wide return, and the covariance between the return on the asset and the economy-wide return.

The CAPM has a strong theoretical appeal, but its application involves several challenges and judgment calls. Experts disagree on the most appropriate measure for economy-wide return (for example, stock market return, GDP growth, or consumption growth). The estimation of key variables also requires rich historical data, which may not be available, especially given that one of the goals of Federal credit is to encourage lending in areas or on terms that private markets have avoided.

### ***Other Components***

Measuring other components of the yield spread also involves some complexities. Under the FCRA, the expected loss from default is already estimated. The estimation, which often is based on historical data, is subject to large errors. The actual performance of a loan can significantly deviate from the historical performance if the tail risk (chance that an extremely large loss occurs due to a catastrophic event, such as a large decrease in house price) is significant. The liquidity premium can be estimated based on some market variables, such as the bid-ask spread (the difference between what the dealer charges to buyers and what the dealer pays to sellers) and the trading volume. However, the estimation is complex, and the result can differ across models. The effect of the State tax exemption on the yield spread is relatively straightforward to estimate. Still, there are some complications arising from differing income tax rates across States and differing marginal tax rates across investors. Financial market experts developed many models estimating prepayment risk, but few are free of criticism. It is difficult to estimate the distribution of future interest rates and the relation between the interest rate and the prepayment rate. By refining accounting practice, Federal agencies should be able to estimate the administrative costs of credit programs. However, it may not be straightforward because the expenses necessary for efficient operations of credit programs may be mingled with other expenses in many cases.

### ***Inference from Pricing of Related Products***

For assets that actively trade in a well-developed market, such as home mortgages, there are many related products whose prices reflect different combinations of factors discussed above. For example, the interest rate on the original mortgage reflects all factors; the yield on mortgage-backed securities (MBS) guaranteed by Fannie Mae or Freddie Mac reflects prepayment risk and the tax differential; and the price of private mortgage insurance reflects the expected loss from default and the uncertainty premium. In these cases, it is possible to infer the contributions of individual factors by netting out common factors. For example, the difference between the mortgage interest rate and the MBS yield is composed of all factors other than prepayment risk and the tax differential. This method, however, may not be applicable to most Federal

credit programs which have few or no related products. Even for a mortgage guarantee program, it may be a challenge to find sufficient combinations of factors.

### ***Option Pricing Model***

Many Federal credit programs can be likened to options. The option pricing model (OPM), for example, can be useful to estimate the market value of a loan guarantee which is analytically equivalent to a put option (right to sell an asset at a pre-specified price); a lender with a loan guarantee receives the face value of the loan (equivalent to selling the loan to the guarantor at the face value) if the loan defaults. The option value is calculated based on the current price, estimated future volatility of the underlying asset (the guaranteed loan in this case), and a few additional parameters. The future volatility is usually estimated based on the past volatility or inferred from the price of existing widely-traded options. The applicability of the OPM to Federal credit programs is limited to situations where market pricing data are readily available, and where the key assumptions of options pricing models, such as the normality of return distribution, hold.

### ***Availability of Market Information and Historical Data***

Given the complexities discussed above, estimating the fair rate of return to taxpayers is difficult, and the degree of difficulty depends on the availability of market information and historical data. For a credit program with a private-market counterpart that trades actively in a well-functioning market, the fair rate of return to taxpayers can be derived from the comparable market rate and the prices of related products. If a credit program has rich historical data spanning several business cycles, it is possible to estimate the uncertainty premium using the CAPM. Historical data also facilitate the estimation of other relevant variables, such as prepayment risk which is typically estimated based on the historical relationship between the interest rate and the prepayment rate.

For most Federal credit programs, the availability and the usefulness of market information are very limited. The Government typically intervenes to improve efficiency in inefficient markets, where either comparable products do not exist or their prices are distorted. For example, information problems discussed in the first section of this chapter prevent markets for student loans and small business loans from functioning smoothly. In those cases, market interest rates may reflect some other complex factors that cannot be captured easily, making the decomposition much more difficult. Even in well-developed markets, the presence of Federal programs can distort market prices. For example, mortgage rates may be lower than they would be without Fannie Mae and Freddie Mac. Market information, including interest rates, can be also misleading during periods of financial instability. The availability of historical data varies widely across programs. For newer programs, particularly those with large loans and varied terms, such as transportation and energy infrastructure programs, sufficient historical data may not be available even in ten years. For some credit programs,

therefore, estimating the fair rate of return for taxpayers would be extremely difficult.

Any attempt to try to estimate uncertainty premiums and other components of fair value based on limited data is likely to require controversial assumptions that may hold only in some special cases. For example, one could assume that Government loans might have the same uncertainty premium as private loans with equal expected default rates. However this assumption would not be consistent with financial theories such as the CAPM and could lead to serious errors, for reasons that are explored in the box.

### **Consistency across Programs**

It is also unclear whether fair value budgeting only for credit programs would make the budget costs of credit programs more comparable to the budget costs of other programs, apart from estimation issues. The uncertainty premium may also be relevant to some other Federal programs, of which outlays are tied to economic condition, such as unemployment insurance. The administrative cost is not included in the budget costs of most Federal programs, and the tax rate differential benefits virtually all Federal programs. In addition, for programs involving externalities, their social costs can differ significantly from the market prices. For example, the market price that the Government pays for a truck does not include the social cost of pollution, and the budget cost of building a highway does not include the social cost of environmental damages. The allocation of Federal resources might fail to improve if fair value budgeting makes the budget costs of credit programs more comparable to some programs, but less comparable to others.

### **Practical Implementation Issues**

Beyond the conceptual issues of fair value, there are practical implementation issues that would need to be addressed. Premature or piecemeal implementation of fair value could prove extremely costly, with little long-term benefit in terms of more accurate cost information and efficient resource allocation. Depending on the nature of a fair value proposal, it could require a significant investment in OMB, Treasury, and Federal credit agency resources to implement, or it could divert limited administrative resources from management and oversight of affected programs.

Methods for estimating fair value would need to be explored and developed, along with guidance to ensure consistent and appropriate application across programs. The budgetary treatment for various components would have to be considered. For example, if credit program cost estimates included premiums to compensate for uncertainty or liquidity, it raises questions of how the budget should reflect the anticipated income from such premiums. While fair value estimates would capture some costs not currently reflected under the FCRA, as noted above, not all of the components of fair value may be relevant to Government. Some components are already reflected in FCRA estimates or elsewhere in the budget, so pricing these components accurately would be necessary to avoid



double counting or understating costs, and the degree of accuracy in estimating component prices can vary widely. Often there are not comparable market instruments for Federal credit programs, and market prices can be volatile for reasons that may not relate to the underlying asset. As these component prices will vary greatly by program and to some extent by individual project, there may be limited ability to compare assumptions against actual experience to improve or inform future cost estimates. Such volatility could lend to deficit swings that may not be accurate, or relevant to the Government. Guidance would also need to be developed to account for actual costs over time to ensure transparency and accuracy in the costs of outstanding loans and guarantees, and to use experience to inform cost estimates for both new assistance, and the effects of policy changes on program costs.

Implementation of fair value for some credit programs and not others could distort resource allocation decisions across programs. For example, if fair value were used only for programs where market information was more readily available, such as mortgage guarantees, policy makers would not have a comparable basis for comparing investment in these areas to other forms of credit assistance. Further, for programs that may invest in similar areas, such as energy infrastructure, reasonable analysis may yield very different views of the fair value based on the timing of the market data used, or differences in methods where market data may not be available. Absent consistency across programs, fair value could lead to distorted cost estimates, and create incentives to overinvest or underinvest in various programs.

In implementing current FCRA requirements, some Federal credit programs have faced significant administrative challenges in building staff with the right technical skill sets, and developing critical management infrastructure, including financial accounting systems, monitoring, and modeling capabilities. Fair value complexities would place much greater demands on agencies in all of these areas. For some of these programs, greater investment in FCRA estimates might do more to improve cost measurement than investment in fair value estimates.

The Troubled Asset Relief Program (TARP) implemented a form of fair value cost estimate per the direction in the Economic Emergency Stabilization Act of 2008. The Act provided Treasury permanent indefinite budget authority, in contrast to the funding for administrative expenses of most other credit programs, which are annually appropriated and constrained by the discretionary caps. Implementation has been extremely resource intensive, requiring large investments in private sector financial advisors, datasets, and systems. Agencies with limited administrative resources may not be able to support necessary investments for accurate fair value estimates, or doing so could draw resources away from mitigating risks and costs that otherwise may be within the agency's ability to control, such as defaults or recoveries, or effective delivery of services to beneficiaries. Ultimately, the lifetime cost to Government under TARP is expected to be far lower than originally estimated, as premiums for market risk are returned to Treasury through downward reestimates over time, raising the question of the benefit of the original fair value estimates.

### Summary

Fair value budgeting for Federal credit programs has the potential to capture elements of cost that are not included in FCRA cost estimates. A decision on whether to shift to fair value budgeting, however, should be preceded by careful consideration of many complex issues. At the conceptual level, more analyses are needed to clarify the extents to which factors relevant to private investors are also relevant to taxpayers. At the implementation level, choosing the best way to estimate the fair value cost for taxpayers would require extensive testing of various methods in relation to Federal credit programs. The cost of implementing fair value budgeting should also be a serious consideration, as the implementation would require a high level of financial expertise and extensive data work. The effectiveness of fair value budgeting for credit programs in improving resource allocation should be compared with other alternatives, including fair value budgeting for all programs for consistency across credit and non-credit programs and strengthened cost-benefit

### **Uncertainty Premiums: Diversifying across Assets and Distributing among a Large Number of Investors**

Most people dislike uncertainty, preferring a certain return to an uncertain return. For this reason, investors must usually be paid an uncertainty premium to hold a riskier asset. The premium is measured by the extra return required to compensate for the uncertainty. See numerical examples below.

Investors can reduce uncertainty through diversification across assets. Holding a mix of assets will generally yield a less volatile return than investing in only a few alternatives. In a mixed portfolio, when the realized return is low on some alternatives, it is likely to be high on others, and the total return will reflect a combination of both high and low individual returns. Investors will not demand an extra return for the portion of uncertainty that they can diversify away in this fashion. For example, consider a "pro-cyclical" stock which pays more in the boom than in the recession. Imagine pairing that stock with a "countercyclical" stock which pays more in the recession than in the boom. If investors could freely mix countercyclical stocks and pro-cyclical stocks without restrictions, they could eliminate uncertainty.

In practice, investors can diversify only to a limited extent. There may not exist enough countercyclical assets with returns that balance those of the pro-cyclical alternatives to allow all investors to create a zero-risk portfolio. In the U.S. stock market,



for example, the pro-cyclical stocks tend to far outweigh the countercyclical stocks. Provided that diversification cannot eliminate the risk associated with pro-cyclical stocks, investors will continue to demand an uncertainty premium on those stocks.

It is important to note that the uncertainty premium on an individual asset can be negative because some uncertainties are desirable. Countercyclical stocks, for example, have high returns during recessions and lower returns during booms. This is an uncertain profile of returns, but it can be used to balance the more common pro-cyclical returns on other stocks. Holding the countercyclical stock in a mixed portfolio has value in excess of its expected return because it reduces overall uncertainty.

Uncertainty can also become insignificant when it is distributed among a large number of investors. The well-being of an individual is little affected by uncertainty when the amount subject to uncertainty is only a small fraction of wealth. Many of those who buy insurance to protect themselves from major financial losses are willing to gamble for small stakes. This pattern of behavior is consistent with a disproportionately smaller uncertainty premium for smaller uncertainty. Thus, when moderate uncertainty is distributed among a large number of investors, the uncertainty premium can be zero, provided that the uncertainty is unrelated to economy-wide uncertainty, such as the boom and the recession.

If uncertainty is closely related to economy-wide uncertainty, however, distribution among a large number of investors is ineffective; it does not eliminate the portion of uncertainty that is related to the market risk. Even very small uncertainty matters when it is added to existing uncertainty.

In sum, although investors dislike uncertainty, they demand compensation only for the portion of uncertainty that cannot be avoided. Thus, the uncertainty premium for an asset does not necessarily increase with the variability of its return, and it can even be negative. Even for an asset with a highly variable return, the uncertainty premium is low or negative if its return is weakly or negatively correlated with the economy-wide return. The uncertainty premium is also low for an asset of which uncertainty can be effectively distributed among a large number of investors.

### Numerical Examples

In this simple example, the economy will be either in a boom or in a recession next year with a 50-50 chance. Each investor has \$100, and each asset costs \$100.

**Uncertainty Premium.** Suppose that a safe asset (SAFE) returns \$105 both in the boom and the recession, and a risky asset (RISKY) returns \$130 in the boom and \$90 in the recession. Then the expected return on SAFE is  $\$105[(\$105 \times 0.5) + (\$105 \times 0.5)]$ , and the expected return on RISKY is  $\$110 [(\$130 \times 0.5) + (\$90 \times 0.5)]$ . In this example, the risk-free rate of return is 5 percent, which is the expected rate of return on SAFE, and the uncertainty premium on RISKY is 5 percent, which is the difference between the expected rate of return on RISKY and the risk-free rate of return.

**Complete Diversification.** Suppose that there are two investors and two assets named RISKY1 and RISKY2. RISKY1 returns \$120 in the boom and \$90 in the recession, while RISKY2 returns \$90 in the boom and \$120 in the recession. If each investor invests \$50 in RISKY1 and \$50 in RISKY2, the return will be \$105 both in the boom and in the recession. With this complete diversification, there is no uncertainty and hence no uncertainty premium.

**Incomplete Diversification.** Suppose that there are three investors, two RISKYs, and another asset named RISKY3. RISKY3 returns \$90 in the boom and \$114 in the recession. A risk-free portfolio yielding \$105 both in the boom and the recession can be formed with a \$37.5 investment in RISKY and a \$62.5 investment in RISKY3. The expected return is \$102 for RISKY3, \$107.3 for the market portfolio consisting of two thirds of RISKY and one third of RISKY3, and \$110 for RISKY. In this example, the risk-free rate of return is 5 percent, the risk premium is -3 percent for RISKY3, 2.3 percent for the market portfolio, and 5 percent for RISKY. Given that the risk-free portfolio is a combination of RISKY and RISKY3, the risk premium on RISKY3 must be negative when the risk premium on RISKY is positive. In the real world, the interaction between demand and supply of assets ensures this outcome.

**Distribution among a Large Number of Investors.** Suppose that there are 100 investors, 100 SAFEs, and another asset named RISKY4, which yields \$120 if new technology succeeds and \$90 if it fails, with a 50-50 chance. RISKY4 is very risky if chosen by a single investor. If every investor invests \$99 in SAFE and \$1 in RISKY, the return is \$105.15 if the technology succeeds and \$104.85 if it fails. Provided that investors do not mind having a small fraction of their wealth exposed to uncertainty, this return profile is as good as \$105 with certainty. Distribution among a large number of investors is an effective way of eliminating uncertainty if the uncertainty is unrelated to economy-wide uncertainty (boom or recession).

**Uncertainty Related to Economy-wide Uncertainty.** Suppose that there are 100 investors, unlimited SAFEs, unlimited RISKYs, and one RISKY4 and that new technology succeeds in the boom and fails in the recession. This uncertainty for RISKY4, which is the same as economy-wide uncertainty, cannot be distributed away. Looking at market prices is a straightforward way to illustrate this point. It can be shown that an investor can replicate the return profile of RISKY4 by investing \$21.43 in SAFE and \$75.00 in RISKY (\$96.43 in total). Thus, investing \$100 in RISKY4 is equivalent to overpaying \$3.57 for the same good. The overpayment is a real loss. Even if the loss is distributed among 100 investors, it still adds back to the same amount.

analyses at the program level apart from budgeting. The Administration has already been working to evaluate Federal programs more thoroughly and pursuing a range of initiatives that would lead to more effective and efficient uses of Federal resources (see chapters 7, 8, and 9 of this volume).

### Public-Private Partnership

Credit and insurance are largely provided by private entities, and managing credit and insurance businesses requires substantial expertise. Thus, the Government can significantly improve the efficiency of credit and insurance programs through partnership with the private sector.

To successfully implement public-private partnership, the Government should combine the strengths of the public sector and the private sector, and design the incentive structure carefully. The management of credit and insurance programs involves many functions: marketing, financing, pricing/screening, monitoring, servicing, absorbing losses, and recovering losses. When proper incentives are presented, the private sector can carry out some of these functions more efficiently.

**Marketing.** To improve the effectiveness of a program, the Government should inform and encourage the target population to use the program. The marketing effort is particularly important for the programs that can reduce the need for taxpayer-financed assistance later (e.g., flood insurance). The Government can benefit from the private sector's marketing network. The potential gain from public-private partnership may depend on the clarity of eligibility. If eligibility is ambiguous, private partners, whose profits are usually tied to business volume, may go much beyond the target population, resulting in inefficiency.

**Financing.** Lenders need funds to make loans, and they finance loan capital in various ways, such as borrowing, raising equity, and securitizing loans (pooling loans and selling shares of the pool to investors). The Government has a clear advantage in financing because the Treasury market is the most liquid and stable market. Thus, transferring the financing function alone to private partners, without other functions that private partners perform better, would result in higher financing costs but no offsetting benefits. Securitizing Government loans, for example, is undesirable unless private investors bear and manage the risk of those loans more efficiently.

**Pricing and Screening.** A main challenge for credit and insurance providers is to find the price (lending terms and insurance premiums) corresponding to the risk specific to each customer or to identify better-risk customers given a preset price. The private sector has an advantage in pricing and screening because accurate pricing and screening usually take profit motives and relevant expertise. To benefit from the superior pricing and screening ability of the private sector, however, the Government must provide appropriate incentives to private-sector partners. For loan guarantees, for example, the guarantee percentage should not be too high. Also the pricing and screening expertise of private-sector partners is ir-

relevant for programs in which the price is preset and eligibility is based only on social characteristics rather than risk characteristics.

**Monitoring.** After loans and insurance policies are issued, lenders and insurers need to prevent borrowers and policyholders from engaging in high-risk activities ("moral hazard"). Monitoring may be more effective when lenders and insurers have profit motives and relevant expertise. Monitoring also takes enforcement mechanisms. While the private sector uses contractual devices, such as cancellation (e.g., calling loans and cancelling insurance policies) and re-pricing, the Federal Government relies on regulation. For example, the FDIC regulates banks and thrifts to protect the deposit insurance fund. Transferring the monitoring function to private-sector partners can be beneficial, but the potential benefit may be limited only to those cases where regulation is not necessarily more effective or desirable than private contractual devices.

**Servicing.** Efficient processing of loan repayments and insurance premiums improves customer satisfaction and reduces losses. With advanced computing technology, expertise may have become less important for these activities. Nevertheless, experienced private entities may service loans and insurance policies at lower costs. Moreover, processing insurance claims (e.g., assessing damages) may still require substantial expertise.

**Absorbing Losses.** Loan losses and insurance claims sometimes turn out to be significantly greater than expected. Although lenders and insurers maintain capital to absorb losses, their capacity to absorb losses is limited. The Federal Government with general taxing authority has an advantage in absorbing extremely large and highly uncertain losses, such as those resulting from massive bank failures and natural disasters.

**Recovering Losses.** Private lenders are highly motivated to recover a large portion of defaulted loans, in order to increase the overall return on loans. They may also have more expertise in debt collection than Government agencies. The Government, however, has some special collection tools, such as withholding tax refunds. In cases where the Government does not use special tools, the private sector may have an advantage in recovering loan losses.

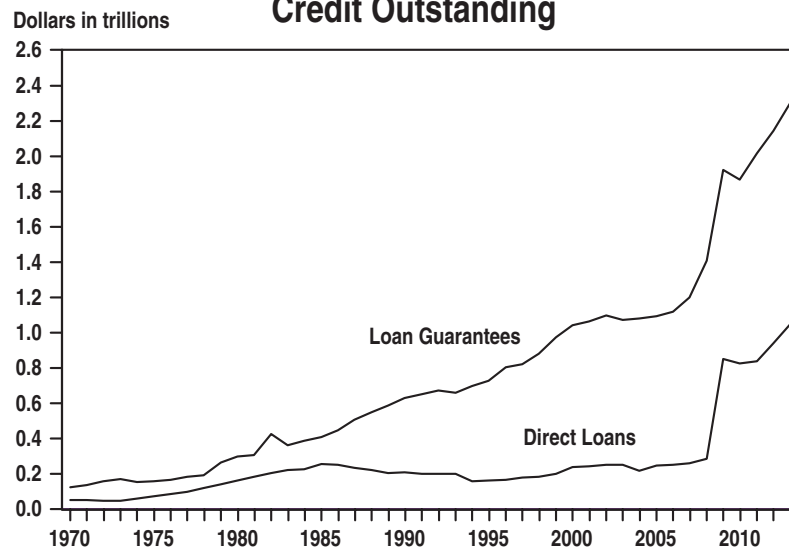
There are many ways to utilize the private sector's strengths. When lending decisions are delegated to private-sector partners, a partial loan guarantee forcing them to bear some risk is one way to take advantage of the screening ability of private-sector lenders. Providing reinsurance for catastrophic losses can combine the Government's strength in absorbing losses with the private sector's strengths in marketing, pricing, and servicing. The Government may improve the cost efficiency of a direct loan program by outsourcing the servicing to a private entity through competitive bidding. The Government can also increase its recovery rate by auctioning off defaulted loans to private investors.

Realizing the potential gains from public-private partnership requires thorough understanding of the characteristics of each program and the incentives of private-sector partners. An ill-designed partnership would unnecessar-

ily raise the cost of the program by combining weaknesses and allowing profit margins for private partners. An example is the Federal Family Education Loan program, which was eliminated in 2010. Under the loan-guarantee program, participating banks lent to all eligible students. Due to this nature of the program, there were few opportunities to utilize the private lenders' strengths. Colleges effectively performed marketing and eligibility screening.

Lenders serviced the loans, but the Government also outsourced the servicing of direct student loans to a private entity, negating the potential advantage of the guarantee program. Lenders were not involved in collection because defaulted loans were taken over by the Government. The main function performed by lenders in that case was financing, in which the Government had a clear advantage.

**Chart 23-1. Face Value of Federal Credit Outstanding**



**Table 23–2. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL CREDIT PROGRAMS**  
(In billions of dollars)

Program	Outstanding 2010	Estimated Future Costs of 2010 Outstanding <sup>1</sup>	Outstanding 2011	Estimated Future Costs of 2011 Outstanding <sup>1</sup>
<b>Direct Loans:<sup>2</sup></b>				
Federal Student Loans .....	254	10	378	-14
GSE Mortgage-Backed Securities Purchase Program .....	164	-9	71	-2
Troubled Asset Relief Program <sup>3</sup> .....	135	37	100	42
Education Temporary Student Loan Purchase Authority .....	100	-9	98	-13
Farm Service Agency (excl. CCC), Rural Development, Rural Housing .....	49	10	52	10
Rural Utilities Service and Rural Telephone Bank .....	45	2	47	2
State Housing Finance Authority Direct Loans .....	15	-1	15	1
Disaster Assistance .....	9	3	8	2
Housing and Urban Development .....	9	8	9	7
Export-Import Bank .....	9	3	9	2
Public Law 480 .....	6	2	5	2
Agency for International Development .....	5	2	4	1
Department of Energy, Title 17, ATVM .....	3	1	7	1
Small Business Lending Fund <sup>3</sup> .....	.....	.....	4	-*
Other direct loan programs <sup>3</sup> .....	24	5	31	11
<b>Total direct loans</b> .....	<b>827</b>	<b>64</b>	<b>838</b>	<b>52</b>
<b>Guaranteed Loans:<sup>2</sup></b>				
FHA-Mutual Mortgage Insurance Fund .....	891	26	1,043	28
Federal Student Loans .....	390	15	328	10
Department of Veterans Affairs (VA) Mortgages .....	225	5	258	5
FHA-General and Special Risk Insurance Fund .....	134	9	138	8
Small Business Administration (SBA) <sup>4</sup> .....	76	4	82	5
Farm Service Agency (excl. CCC), Rural Development, Rural Housing .....	69	3	83	4
Export-Import Bank .....	45	2	49	1
International Assistance .....	21	3	20	3
Commodity Credit Corporation .....	7	*	6	*
Government National Mortgage Association (GNMA) <sup>4</sup> .....	.....	*	.....	*
Other guaranteed loan programs <sup>5</sup> .....	8	*	10	1
<b>Total guaranteed loans</b> .....	<b>1,866</b>	<b>67</b>	<b>2,017</b>	<b>64</b>
<b>Total Federal credit</b> .....	<b>2,693</b>	<b>131</b>	<b>2,855</b>	<b>116</b>

\* \$500 million or less.

<sup>1</sup> Direct loan future costs reflect the financing account allowance for subsidy cost and the liquidating account allowance for estimated uncollectible principal and interest. Loan guarantee future costs reflect estimated liabilities for loan guarantees.

<sup>2</sup> Excludes loans and guarantees by deposit insurance agencies and programs not included under credit reform, such as Commodity Credit Corporation (CCC) commodity price supports. Defaulted guaranteed loans that result in loans receivable are included in direct loan amounts.

<sup>3</sup> As authorized by law, table includes equity purchases under the TARP, the Small Business Lending Fund, and IMF Quota transactions provided in the Supplemental Appropriations Act of 2009. Future costs for TARP and IMF transactions reflected here are calculated using the discount rate required by the FCRA, adjusted for market risks, as directed in legislation.

<sup>4</sup> Certain SBA data are excluded from the totals because they are secondary guarantees on SBA's own guaranteed loans. GNMA guarantee data are excluded from the totals because they are secondary guarantees on loans guaranteed by FHA, VA and RHS.

<sup>5</sup> Includes Department of Energy Title 17 loan guarantees financed by private lenders.



**Table 23-3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992-2011 <sup>1</sup>**  
(Outlays and receipts, in millions of dollars)

Agency and Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>DIRECT LOANS</b>												
Agriculture:												
Agriculture Credit Insurance Fund .....	-656	921	10	-701	-147	-2	-14	-251	-478	326	-147	93
Farm Storage Facility Loans .....		-1	-7	-8	7	-1		50	-47	-11	-19	-6
Apple Loans .....		-2	1		*	*	*	*	-1	-1	-*	-*
Emergency Boll Weevil Loans .....			1	*	*	3		*	*	-*	-*	-2
Distance Learning, Telemedicine and Broadband Loans ....		1	-1	-1	1	7	1	3	-3	1	-2	-30
Rural Electrification and Telecommunications Loans .....	-17	-42	101	265	143	-197	-108	-149	293	248	192	-66
Rural Telephone Bank .....	-1		-3	-7	-6	-17	-48	-22	36	1	-4	-2
Rural Housing Insurance Fund .....	19	-29	-435	-64	-200	109		-13	-405	18	170	313
Rural Economic Development Loans .....		-1	-1		-2	*	-3	3	-1	-4	-2	*
Rural Development Loan Program .....		-1	-3		-3	-2	-7	*	-4	-4	-4	-3
Rural Community Facilities Program .....								4	77	-19	-31	-100
Rural Business and Industry Program .....								-22	-5	-5	4	-20
Rural Water and Waste Disposal Program .....								-13	72	-124	-52	-84
Rural Community Advancement Program <sup>2</sup> .....	37	3	-1	-84	-34	-73	-77					
P.L. 480 .....	-23	65	-348	33	-43	-239	-26	44	-163	-171	23	19
P.L. 480 Title I Food for Progress Credits .....			-112	-44								
Commerce:												
Fisheries Finance .....	-19	-1	-3		1	-15	-12	11	-16	-*	*	*
Defense:												
Military Housing Improvement Fund .....					*	-4	-1	-8	-2	-13	-8	-29
Education:												
Federal Direct Student Loan Program: <sup>3</sup>												
Volume reestimate .....	-6		43									
Other technical reestimate .....	560		3,678	1,999	855	2,827	2,674	408	-45	-1,176	-5,624	5,511
Temporary Student Loan Purchase Authority: <sup>3</sup>												
Volume reestimate .....									418			
Other technical reestimate .....									444	1,076	-5,529	-1,433
College Housing and Academic Facilities Loans .....	-1						*	*	*	*	*	-*
Historically Black Colleges and Universities .....							11	-16	-24	-75	68	-4
TEACH Grants .....										11	-5	18
Energy:												
Advanced Technology Vehicle Manufacturing Fund .....										12	-712	-985
Title 17 Innovative Technology Fund .....										-*	55	409
Homeland Security:												
Disaster Assistance .....	36	-7	-6	*	4	*	*	*		-18	-1	-29
Interior:												
Bureau of Reclamation Loans .....	3	-9	-14		17	1	1	5	-3	-1	-9	-9
Bureau of Indian Affairs Direct Loans .....	-1	-1	2	*	*	*	1	-1		1	1	*
Assistance to American Samoa .....				*	*		2			-4	*	-*
Housing and Urban Development:												
Green Retrofit Program for Multifamily Housing, Recovery Act .....												5
State:												
Repatriation Loans .....												
Transportation:												
High Priority Corridor Loans .....												
Alameda Corridor Loan .....				-12								
Transportation Infrastructure Finance and Innovation .....	18				3	-11	7	11	-163	92	17	-64
Railroad Rehabilitation and Improvement Program .....				-5	-14	-11	-1	15	-8	15	13	-16
Treasury:												
GSE Mortgage-Backed Securities Purchase Program .....										-8,165	2,054	-7,075
Community Development Financial Institutions Fund .....			*	-1	*	-1	1	*		-2	2	-1

**Table 23-3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992-2011<sup>1</sup>—Continued**  
(Outlays and receipts, in millions of dollars)

Agency and Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Troubled Asset Relief Program Direct Loan <sup>4</sup> .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	-15,499	-4,195	3,334
Troubled Asset Relief Program Equity <sup>4</sup> .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	-90,601	-47,207	11,829
Small Business Lending Fund <sup>4</sup> .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	-368
Veterans Affairs:												
Veterans Housing Benefit Program Fund .....	-107	-697	17	-178	987	-44	-76	-402	20	69	45	389
Native American Veteran Housing .....	.....	.....	-3	*	*	*	1	1	*	-*	2	6
Vocational Rehabilitation Loans .....	.....	.....	*	*	*	-1	1	-1	1	-*	*	-*
Environmental Protection Agency:												
Abatement, Control and Compliance .....	3	-1	*	-3	*	*	*	*	*	-*	-*	*
International Assistance Programs:												
Foreign Military Financing .....	-166	119	-397	-64	-41	-7	-6	7	.....	.....	.....	33
U.S. Agency for International Development:												
Micro and Small Enterprise Development .....	.....	*	.....	*	.....	.....	.....	.....	.....	.....	.....	.....
Overseas Private Investment Corporation:												
OPIC Direct Loans .....	.....	.....	-4	-21	3	-7	72	31	-15	-46	6	-4
IMF Quota <sup>4</sup> .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	17
Debt Reduction .....	-4	.....	*	-47	-104	54	-3	.....	.....	.....	.....	.....
Small Business Administration:												
Business Loans .....	1	-2	1	25	.....	-16	-4	4	7	3	1	1
Disaster Loans .....	-282	-14	266	589	196	61	258	-109	134	157	136	127
Other Independent Agencies:												
Export-Import Bank Direct Loans .....	157	117	-640	-305	111	-257	-227	-120	7	54	394	382
Federal Communications Commission .....	-804	92	346	380	732	-24	11	.....	-100	-23	12	4
<b>LOAN GUARANTEES</b>												
Agriculture:												
Agriculture Credit Insurance Fund .....	205	40	-36	-33	-22	-162	20	-36	-48	-4	-58	-75
Agriculture Resource Conservation Demonstration .....	2	.....	1	-1	*	*	.....	.....	.....	.....	.....	.....
Commodity Credit Corporation Export Guarantees .....	-1,410	.....	-13	-230	-205	-366	-232	-225	-39	9	-22	48
Rural Electrification and Telecommunications Loans .....	.....	.....	.....	.....	.....	.....	*	*	*	-*	-*	.....
Rural Housing Insurance Fund .....	152	-56	32	50	66	44	.....	-19	-24	81	183	312
Rural Business and Industry Program .....	.....	.....	.....	.....	.....	.....	.....	-9	-11	41	72	178
Rural Community Facilities Program .....	.....	.....	.....	.....	.....	.....	.....	-1	13	7	11	13
Rural Water and Waste Disposal Program .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1	*	.....
Rural Community Advancement Program <sup>2</sup> .....	63	17	91	15	29	-64	-16	.....	.....	.....	.....	.....
Rural Energy for America .....	.....	.....	.....	.....	.....	.....	.....	*	*	2	4	13
Biorefinery Assistance .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	*	20
Commerce:												
Fisheries Finance .....	-3	-1	3	*	1	*	1	*	*	*	*	.....
Emergency Steel Guaranteed Loans .....	.....	.....	50	*	3	-75	-13	1	-53	.....	.....	.....
Emergency Oil and Gas Guaranteed Loans .....	*	*	*	*	*	-1	*	*	.....	.....	.....	.....
Defense:												
Military Housing Improvement Fund .....	.....	.....	.....	-3	-1	-3	-5	-1	-2	-3	-2	-2
Defense Export Loan Guarantee .....	.....	.....	.....	.....	-5	.....	.....	.....	.....	.....	.....	.....
Arms Initiative Guaranteed Loan Program .....	.....	.....	.....	.....	.....	.....	.....	20	.....	2	-3	.....
Education:												
Federal Family Education Loan Program: <sup>3</sup>												
Volume reestimate .....	-42	.....	277	.....	.....	.....	.....	.....	.....	.....	.....	.....
Other technical reestimate .....	-3,484	.....	-2,483	-3,278	1,348	6,837	-3,399	-189	-13,463	-7,008	-14,455	-10,354
Energy:												
Title 17 Innovative Technology Fund .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	*	12
Health and Human Services:												
Health Center Loan Guarantees .....	.....	*	*	.....	1	*	*	-1	-2	*	-*	.....
Health Education Assistance Loans .....	.....	.....	-5	-37	-33	-18	-20	*	-15	-5	13	-5

**Table 23-3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992-2011<sup>1</sup>—Continued**  
(Outlays and receipts, in millions of dollars)

Agency and Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Housing and Urban Development:												
Indian Housing Loan Guarantee .....	-6	*	-1	*	-3	-1	*	-5	-7	-7	-2	13
Title VI Indian Guarantees .....	.....	.....	-1	1	4	*	-4	-3	-2	-2	-1	-2
Community Development Loan Guarantees .....	.....	.....	.....	19	-10	-2	4	1	-1	-9	-8	-2
FHA-Mutual Mortgage Insurance .....	2,413	-1,308	1,100	5,947	1,979	2,842	636	3,923	9,262	8,435	5,014	6,560
FHA-General and Special Risk .....	-217	-403	77	352	507	238	-1,254	-362	6,086	571	1,848	-1,200
Guarantees of Mortgage Backed Securities .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	684	132
Interior:												
Bureau of Indian Affairs Guaranteed Loans .....	-14	-1	-2	-2	*	15	5	-30	-3	11	4	-19
Bureau of Indian Affairs Insured Loans .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	-*	.....
Transportation:												
Maritime Guaranteed Loans (Title XI) .....	-15	187	27	-16	4	-76	-11	-51	23	8	32	3
Minority Business Resource Center .....	.....	1	.....	*	*	.....	*	*	.....	-*	-*	-*
Treasury:												
Air Transportation Stabilization Program .....	.....	.....	113	-199	292	-109	-95	.....	.....	.....	.....	.....
Troubled Asset Relief Program <sup>4</sup> .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	-517	-691	28
Veterans Affairs:												
Veterans Housing Benefit Fund Program .....	-770	-163	-184	-1,515	-462	-842	-525	182	-70	494	1,084	654
International Assistance Programs:												
U.S. Agency for International Development:												
Development Credit Authority .....	.....	-1	.....	1	-3	-2	2	11	5	-8	-6	4
Micro and Small Enterprise Development .....	.....	.....	.....	2	-2	.....	-3	*	.....	.....	-1	.....
Urban and Environmental Credit .....	.....	-4	-15	48	-2	-5	-11	-22	7	-1	-10	-6
Assistance to the New Independent States of the Former Soviet Union .....	.....	-34	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Loan Guarantees to Israel .....	.....	.....	.....	-76	-111	188	34	-16	-46	283	-21	-316
Loan Guarantees to Egypt .....	.....	.....	.....	.....	.....	7	14	-12	12	-11	6	-54
Overseas Private Investment Corporation:												
OPIC Guaranteed Loans .....	.....	5	77	60	-212	-21	-149	-268	-26	-23	-13	39
Small Business Administration:												
Business Loans .....	-528	-226	304	1,750	1,034	-390	-268	-140	931	3,746	3,711	1,512
Other Independent Agencies:												
Export-Import Bank Guarantees .....	-1,520	-417	-2,042	-1,133	-655	-1,164	-579	-174	23	571	-370	-312
<b>Total .....</b>	<b>-6,427</b>	<b>-1,854</b>	<b>-142</b>	<b>3,468</b>	<b>6,008</b>	<b>9,003</b>	<b>-3,441</b>	<b>2,044</b>	<b>2,576</b>	<b>-107,214</b>	<b>-63,353</b>	<b>9,354</b>

\* \$500,000 or less.

<sup>1</sup> Excludes interest on reestimates. Additional information on credit reform subsidy reestimates is available in the Federal Credit Supplement.

<sup>2</sup> Includes Rural Water and Waste Disposal, Rural Community Facilities, and Rural Business and Industry programs through 2007.

<sup>3</sup> Volume reestimates in mandatory programs represent a change in volume of loans disbursed in the prior years.

<sup>4</sup> As authorized by law, table includes reestimated subsidy costs of equity purchases under the TARP and the Small Business Lending Fund, and IMF transactions authorized under the Supplemental Appropriations Act of 2009. Subsidy costs for TARP and IMF transactions reflected here are estimated using the discount rate required under the FCRA, adjusted for market risks, as directed in legislation.

**Table 23-4. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2011-2013**  
(Dollars in millions)

Agency and Program	2011 Actual			2012 Estimated			2013 Proposed		
	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels
<b>Agriculture:</b>									
Agricultural Credit Insurance Fund Program Account .....	6.43	107	1,674	4.87	84	1,707	4.80	77	1,632
Farm Storage Facility Loans Program Account .....	-2.01	-5	250	-2.28	-7	303	-2.47	-7	303
Rural Electrification and Telecommunications Loans Program Account .....	-3.79	-207	5,462	-4.34	-335	7,714	-5.55	-377	6,790
Distance Learning, Telemedicine, and Broadband Program .....	6.84	3	37	3.55	26	736	9.47	9	94
Rural Water and Waste Disposal Program Account .....	8.58	86	1,001	9.58	81	847	8.07	90	1,121
Rural Community Facilities Program Account .....	1.33	7	490	-3.03	-39	1,300	-2.08	-42	2,000
Farm Labor Program Account .....	38.38	16	40	.....	.....	.....	.....	.....	.....
Multifamily Housing Revitalization Program Account .....	51.47	12	23	49.64	11	22	60.20	31	51
Rural Housing Insurance Fund Program Account .....	8.03	98	1,219	7.22	73	1,016	7.28	52	707
Rural Microenterprise Investment Program Account .....	21.39	3	15	.....	.....	.....	14.95	5	34
Rural Development Loan Fund Program Account .....	38.58	7	19	33.88	6	18	32.04	6	19
Rural Economic Development Loans Program Account .....	17.91	5	29	12.98	10	79	12.39	4	33
<b>Commerce:</b>									
Fisheries Finance Program Account .....	-11.09	-7	68	-9.46	-11	115	-4.21	-4	83
<b>Defense—Military Programs:</b>									
Defense Family Housing Improvement Fund .....	23.64	60	254	3.09	*	15	.....	.....	.....
<b>Education:</b>									
College Housing and Academic Facilities Loans Program Account ..	7.24	11	154	5.50	20	368	6.29	20	320
Teacher Education Assistance .....	13.31	22	169	11.69	21	178	10.89	11	97
Federal Perkins Loan Program Account .....	.....	.....	.....	.....	.....	.....	-29.10	-1,379	4,737
Federal Direct Student Loan Program Account .....	-13.91	-21,760	156,473	-15.15	-29,519	194,817	-20.08	-33,475	166,707
<b>Energy:</b>									
Title 17 Innovative Technology Loan Guarantee Program .....	14.98	1,404	9,371	0.94 <sup>2</sup>	168	17,872	..... <sup>2</sup>	.....	15,000
Advanced Technology Vehicles Manufacturing Loan Program Account .....	22.93	179	781	25.60	4,063	15,871	.....	.....	.....
<b>Health and Human Services:</b>									
Consumer Operated and Oriented Plan Program Account .....	.....	.....	.....	43.21	2,431	5,625	43.05	699	1,625
<b>Homeland Security:</b>									
Disaster Assistance Direct Loan Program Account .....	.....	.....	.....	-1.17	-1	25	-1.51	-1	25
<b>Housing and Urban Development:</b>									
FHA-Mutual Mortgage Insurance Program Account .....	.....	.....	.....	.....	.....	50	.....	.....	50
FHA-General and Special Risk Program Account .....	.....	.....	.....	.....	.....	1	.....	.....	1
Emergency Homeowners' Relief Fund .....	97.72	205	210	.....	.....	.....	.....	.....	.....
<b>State:</b>									
Repatriation Loans Program Account .....	58.57	1	3	57.85	1	1	57.67	1	2
<b>Transportation:</b>									
Highway Infrastructure Investment, Recovery Act .....	2.58	12	472	.....	.....	.....	.....	.....	.....
TIFIA General Fund Program Account, Federal Highway Administration, Transportation .....	.....	.....	.....	3.21	19	592	10.34	39	377
Federal-aid Highways .....	.....	.....	.....	9.05	97	1,077	9.66	478	4,948
Railroad Rehabilitation and Improvement Program .....	.....	.....	566	.....	.....	600	.....	.....	600
<b>Treasury:</b>									
Small Business Lending Fund Program Account <sup>3</sup> .....	7.24	292	4,028	.....	.....	.....	.....	.....	.....
Community Development Financial Institutions Fund Program Account .....	.....	.....	.....	40.26	4	10	0.78	8	1,025
<b>Veterans Affairs:</b>									
Veterans Housing Benefit Program Fund .....	-2.33	-6	263	-1.84	-21	1,141	-2.54	-33	1,326
Native American Veteran Housing Loan Program Account .....	-10.27	-1	9	-9.27	-1	14	-13.87	-2	14
<b>International Assistance Programs:</b>									
Development Credit Authority Program Account .....	.....	.....	.....	.....	.....	.....	27.42	3	10



**Table 23–4. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2011–2013—Continued**  
(Dollars in millions)

Agency and Program	2011 Actual			2012 Estimated			2013 Proposed		
	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels
Overseas Private Investment Corporation Program Account .....	-2.07	-15	712	-2.37	-25	1,050	-3.10	-36	1,150
United States Quota IMF Direct Loan Program Account <sup>3,4</sup> .....	2.34	188	8,023	.....	.....	.....	.....	.....	.....
Loans to the IMF Direct Loan Program Account <sup>3,4</sup> .....	0.34	331	97,499	.....	.....	.....	.....	.....	.....
Small Business Administration:									
Disaster Loans Program Account .....	13.53	83	611	11.03	121	1,100	11.11	122	1,100
Business Loans Program Account .....	20.60	11	56	19.61	9	45	15.71	3	18
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account .....	-12.76	-807	6,323	32.99	8	25	30.08	8	25
National Infrastructure Bank:									
National Infrastructure Bank Program Account .....	.....	.....	.....	15.14	68	450	15.02	338	2,250
<b>Total .....</b>	<b>N/A</b>	<b>-19,665</b>	<b>296,304</b>	<b>N/A</b>	<b>-22,638</b>	<b>254,784</b>	<b>N/A</b>	<b>-33,352</b>	<b>214,274</b>

\* \$500,000 or less.

<sup>1</sup> Additional information on credit subsidy rates is available in the Federal Credit Supplement.

<sup>2</sup> Rate reflects notional estimate, including transactions funded through either appropriations or borrower fees. Estimates will be determined at the time of execution, and will reflect the terms of the contracts and other characteristics.

<sup>3</sup> As authorized by law, table includes equity purchases under the Small Business Lending Fund and IMF transactions provided in the Supplemental Appropriations Act of 2009.

<sup>4</sup> Subsidy costs for IMF transactions reflected here are calculated using the discount rates required by the FCRA, adjusted for market risks, as directed in legislation.

N/A = Not applicable.

**Table 23–5. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2011–2013**  
(Dollars in millions)

Agency and Program	2011 Actual			2012 Estimated			2013 Proposed		
	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels
<b>Agriculture:</b>									
Agricultural Credit Insurance Fund Program Account .....	1.38	43	3,143	0.82	26	3,150	0.52	17	3,150
Commodity Credit Corporation Export Loans Program Account .....	-0.86	-41	4,767	-0.76	-42	5,500	-0.81	-45	5,500
Rural Water and Waste Disposal Program Account .....	-0.85	*	32	1.59	1	31	1.06	*	47
Rural Community Facilities Program Account .....	3.95	8	196	4.73	9	191	6.75	1	16
Rural Housing Insurance Fund Program Account .....	-0.16	-29	16,890	-0.03	-7	24,130	-0.28	-67	24,150
Rural Business Program Account .....	5.06	70	1,387	5.58	48	869	6.86	67	981
Rural Energy for America Program .....	46.36	16	34	26.19	13	48	24.01	28	118
Biorefinery Assistance Program Account .....	31.10	89	285	26.80	185	691	.....	.....	.....
<b>Commerce:</b>									
Economic Development Assistance Programs .....	.....	.....	.....	15.32	10	65	18.06	7	39
<b>Energy:</b>									
Title 17 Innovative Technology Loan Guarantee Program .....	7.56	419	5,546	..... <sup>2</sup>	.....	2,200	.....	.....	.....
<b>Health and Human Services:</b>									
Health Resources and Services .....	2.72	1	32	4.63	*	15	3.70	*	12
<b>Housing and Urban Development:</b>									
Indian Housing Loan Guarantee Fund Program Account .....	0.83	5	577	1.46	5	360	0.83	7	900
Native Hawaiian Housing Loan Guarantee Fund Program Account .....	0.83	*	42	0.93	1	33	0.50	1	38
Native American Housing Block Grant .....	10.20	2	20	10.80	2	20	10.91	2	18
Community Development Loan Guarantees Program Account .....	2.34	6	275	2.48	9	365	.....	.....	500
FHA-Mutual Mortgage Insurance Program Account .....	-2.86	-6,740	236,017	-1.71	-3,937	230,633	-3.73	-8,188	219,562
FHA-General and Special Risk Program Account .....	-2.73	-468	17,175	-1.89	-364	19,285	-4.01	-661	16,435
Home Ownership Preservation Equity Fund Program Account .....	10.90	11	101	.....	.....	.....	.....	.....	.....
<b>Interior:</b>									
Indian Guaranteed Loan Program Account .....	7.87	6	84	8.38	6	73	5.53	4	73
<b>Transportation:</b>									
Minority Business Resource Center Program .....	1.79	*	4	1.81	*	18	1.73	*	22
Federal-aid Highways .....	.....	.....	.....	10.00	20	200	9.50	20	211
Railroad Rehabilitation and Improvement Program .....	.....	.....	.....	.....	.....	100	.....	.....	100
Maritime Guaranteed Loan (Title XI) Program Account .....	7.50	60	798	7.26	27	370	.....	.....	.....
<b>Veterans Affairs:</b>									
Veterans Housing Benefit Program Fund .....	-0.30	-219	72,117	0.06	37	65,060	0.27	135	50,821
<b>International Assistance Programs:</b>									
Loan Guarantees to Israel Program Account .....	.....	.....	.....	.....	.....	3,814	.....	.....	.....
Tunisia Loan Guarantee Program Account .....	.....	.....	.....	.....	30	400	.....	.....	.....
Development Credit Authority Program Account .....	6.93	14	196	7.56	45	595	6.45	47	729
Overseas Private Investment Corporation Program Account .....	-8.10	-142	1,759	-5.66	-116	2,050	-6.38	-185	2,900
<b>Small Business Administration:</b>									
Disaster Loans Program Account .....	.....	.....	.....	1.96	*	18	2.31	1	57
Business Loans Program Account .....	0.95	561	58,824	0.30	250	83,123	0.45	374	83,440
<b>Export-Import Bank of the United States:</b>									
Export-Import Bank Loans Program Account .....	-0.85	-225	26,404	-0.93	-295	31,694	-2.83	-1,049	36,949
<b>National Infrastructure Bank:</b>									
National Infrastructure Bank Program Account .....	.....	.....	.....	.....	.....	.....	8.51	17	200
<b>Total .....</b>	<b>N/A</b>	<b>-6,553</b>	<b>446,705</b>	<b>N/A</b>	<b>-4,037</b>	<b>475,101</b>	<b>N/A</b>	<b>-9,467</b>	<b>446,968</b>

**Table 23–5 LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2011–2013—Continued**  
(Dollars in millions)

Agency and Program	2011 Actual			2012 Estimated			2013 Proposed		
	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels
<b>ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS</b>									
GNMA:									
Guarantees of Mortgage-backed Securities Loan Guarantee Program Account .....	-0.24	-841	350,398	-0.19	-553	291,000	-0.23	-550	239,000
Treasury:									
Troubled Asset Relief Program, Housing Programs <sup>3</sup> .....	1.26	1	73	5.34	2,769	51,862	4.76	2,466	51,862
SBA:									
Secondary Market Guarantee Program .....	.....	.....	4,446	.....	.....	14,571	.....	.....	12,000
<b>Total, secondary guaranteed loan commitments .....</b>	<b>N/A</b>	<b>-840</b>	<b>354,917</b>	<b>N/A</b>	<b>2,216</b>	<b>357,433</b>	<b>N/A</b>	<b>1,916</b>	<b>302,862</b>

\* \$500,000 or less.

<sup>1</sup> Additional information on credit subsidy rates is available in the Federal Credit Supplement.

<sup>2</sup> Rate reflects notional estimate, and assumes borrowers pay fees to cover the subsidy cost. Estimates will be determined at the time of execution, and will reflect the terms of the contracts and other characteristics.

<sup>3</sup> Amounts reflect the TARP FHA Refinance Letter of Credit program. Subsidy costs for this program are calculated using the discount rate required by the FCRA, adjusted for market risks, as directed in legislation.

N/A = Not applicable.

**Table 23–6. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES <sup>1</sup>**

(In billions of dollars)

	Actual								Estimate	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Direct Loans:</b>										
Obligations .....	42.0	56.3	57.8	42.5	75.6	812.9	246.0	296.3	254.8	214.3
Disbursements .....	38.7	50.6	46.6	41.7	41.1	669.4	218.9	186.7	232.5	193.9
New subsidy budget authority <sup>2</sup> .....	0.4	2.1	4.7	1.4	3.7	140.1	-9.2	-15.7	-22.8	-33.4
Reestimated subsidy budget authority <sup>2,3</sup> .....	2.6	3.8	3.1	3.4	-0.8	-0.1	-125.1	-66.8	17.9	.....
<b>Total subsidy budget authority .....</b>	<b>3.0</b>	<b>6.0</b>	<b>7.8</b>	<b>4.8</b>	<b>-1.3</b>	<b>140.0</b>	<b>-134.3</b>	<b>-82.5</b>	<b>-4.9</b>	<b>-33.4</b>
<b>Loan guarantees:</b>										
Commitments <sup>4</sup> .....	300.6	248.5	280.7	270.2	367.7	879.2	507.3	446.7	475.1	447.0
Lender disbursements <sup>4</sup> .....	279.9	221.6	256.0	251.2	354.6	841.5	494.8	384.1	397.6	375.4
New subsidy budget authority <sup>2</sup> .....	7.3	10.1	17.2	5.7	-1.4	-7.8	-4.9	-7.4	-1.6	-10.9
Reestimated subsidy budget authority <sup>2,3</sup> .....	2.0	3.5	7.0	-6.8	3.6	0.5	7.6	-4.0	-3.8	.....
<b>Total subsidy budget authority .....</b>	<b>9.3</b>	<b>13.6</b>	<b>24.2</b>	<b>-1.1</b>	<b>2.2</b>	<b>-7.2</b>	<b>2.8</b>	<b>-11.4</b>	<b>-5.4</b>	<b>-10.9</b>

<sup>1</sup> Table includes equity purchases under the TARP and the Small Business Lending Fund, and IMF increases provided in the Supplemental Appropriations Act of 2009, as authorized by law.

<sup>2</sup> Credit subsidy costs for TARP and IMF transactions reflected here are calculated using the discount rate required under the FCRA, adjusted for market risks, as directed in legislation.

<sup>3</sup> Includes interest on reestimate.

<sup>4</sup> To avoid double-counting, totals exclude GNMA secondary guarantees of loans that are guaranteed by FHA, VA, and RHS, SBA's guarantee of 7(a) loans sold in the secondary market, and the TARP FHA Refinance Letter of Credit program.

Table 23-7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS

Agency and Program	In millions of dollars			As a percentage of outstanding loans <sup>1</sup>		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
<b>DIRECT LOAN WRITE-OFFS</b>						
Agriculture:						
Agricultural Credit Insurance Fund .....	42	77	56	0.45	0.81	0.56
Rural Business and Industry Program .....	.....	1	.....	.....	4.00	.....
Rural Community Facilities .....	9	.....	.....	0.23	.....	.....
Rural Electrification and Telecommunications Fund .....	.....	31	27	.....	1.19	1.18
Rural Housing Insurance Fund .....	45	56	56	0.16	0.20	0.21
Rural Water and Waste Disposal .....	1	.....	.....	0.01	.....	.....
Commerce:						
Economic Development Revolving Fund Liquidating Account .....	.....	1	1	.....	20.00	33.33
Defense—Military:						
Family Housing Improvement Fund .....	.....	1	2	.....	0.09	0.15
Housing and Urban Development:						
Emergency Homeowners' Relief .....	.....	24	24	.....	11.43	13.19
Guarantees of Mortgage-Backed Securities .....	.....	4	4	.....	50.00	100.00
International Assistance Programs:						
Debt Reduction (Agency for International Development) .....	40	41	.....	4.06	5.17	.....
Overseas Private Investment Corporation .....	9	12	22	0.55	0.65	1.14
Small Business Administration:						
Business Loans .....	7	8	8	3.98	4.71	4.57
Disaster Loans .....	207	196	193	2.50	2.39	2.29
Transportation:						
Railroad Rehabilitation and Improvement Program .....	.....	.....	1	.....	.....	0.06
Treasury:						
Community Development Financial Institutions Fund .....	.....	1	1	.....	1.61	1.61
Small Business Lending Fund <sup>2</sup> .....	.....	18	23	.....	0.45	0.65
Troubled Asset Relief Program Equity Purchases <sup>2</sup> .....	47,628	83	.....	33.94	0.09	.....
Veterans Affairs:						
Veterans Housing Benefit Program .....	5	21	11	0.55	1.16	0.56
Other Independent Agencies:						
Debt Reduction (Export-Import Bank) .....	724	.....	.....	86.29	.....	.....
Export-Import Bank .....	475	10	10	4.72	0.12	0.13
Spectrum Auction .....	43	24	24	21.61	18.18	22.22
<b>Total, direct loan write-offs .....</b>	<b>49,235</b>	<b>609</b>	<b>463</b>	<b>21.85</b>	<b>0.35</b>	<b>0.29</b>
<b>GUARANTEED LOAN TERMINATIONS FOR DEFAULT</b>						
Agriculture:						
Agricultural Credit Insurance Fund .....	77	78	78	0.52	0.50	0.48
Biorefinery Assistance Guaranteed Loans .....	.....	38	4	.....	13.33	0.89
Commodity Credit Corporation Export Loans .....	179	161	92	1.52	1.39	0.76
Rural Business and Industry Program .....	170	210	242	2.27	2.63	2.98
Rural Community Facility .....	8	8	8	0.72	0.63	0.57
Rural Energy for America Program .....	2	8	10	2.11	6.56	7.30
Rural Housing Insurance Fund .....	296	403	500	0.46	0.47	0.50
Defense—Military:						
Family Housing Improvement Fund .....	.....	5	5	.....	1.12	1.15
Education:						
Federal Family Education Loans .....	15,077	8,237	7,175	3.86	2.51	2.80
Health Education Assistance Loans <sup>3</sup> .....	.....	.....	14	.....	.....	2.46



Table 23-7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS—Continued

Agency and Program	In millions of dollars			As a percentage of outstanding loans <sup>1</sup>		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
Energy:						
Title 17 Innovative Technology .....		6	5		0.15	0.10
Health and Human Services:						
Health Education Assistance Loans <sup>3</sup> .....	18	16		2.47	2.63	
Health Center Loan Guarantees .....		1	1		1.08	1.09
Housing and Urban Development:						
FHA-General and Special Risk Insurance .....	1,828	3,201	3,085	1.21	2.01	1.85
FHA-Mutual Mortgage Insurance .....	14,416	32,920	29,526	1.27	2.59	2.17
Home Ownership Preservation Equity Fund .....		2	2		1.67	1.72
Indian Housing Loan Guarantee .....	17	19	16	0.75	0.75	0.47
Native American Housing Block Grant .....		2	2		1.41	1.31
Interior:						
Indian Guaranteed Loans .....	3	5	3	0.56	0.90	0.55
International Assistance Programs:						
Development Credit Authority .....	1	2	3	0.26	0.34	0.46
Foreign Military Financing .....	6	3	1	0.87	0.68	0.51
Housing and Other Credit Guaranty Programs .....	14	4	4	2.04	0.69	0.78
Overseas Private Investment Corporation .....	60	94	72	0.89	1.43	1.00
Urban and Environmental Credit Program .....	4	4	4	1.48	1.62	1.79
Small Business Administration:						
Business Loans .....	4,166	4,221	4,088	4.34	4.30	3.87
Transportation:						
Maritime Guaranteed Loan (Title XI) Program .....		41	36		1.38	1.33
Treasury:						
Troubled Asset Relief Program, Home Affordable Modification .....		4	85		0.01	0.08
Veterans Affairs:						
Veterans Housing Benefit Program .....	2,288	2,085	2,185	0.77	0.65	0.60
Other Independent Agencies:						
Export-Import Bank .....	139	202	193	0.22	0.29	0.23
<b>Total, guaranteed loan terminations for default .....</b>	<b>38,769</b>	<b>51,980</b>	<b>47,439</b>	<b>1.72</b>	<b>2.13</b>	<b>1.82</b>
<b>Total, direct loan write-offs and guaranteed loan terminations .....</b>	<b>88,004</b>	<b>52,589</b>	<b>47,902</b>	<b>3.56</b>	<b>2.01</b>	<b>1.73</b>
<b>ADDENDUM: WRITE-OFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE</b>						
Agriculture:						
Agricultural Credit Insurance Fund .....	13	10	10	10.08	7.19	6.58
Rural Business and Industry Program .....	69	59	78	39.20	10.67	11.61
Rural Housing Insurance Fund .....	106	108	126	20.00	16.74	15.87
Commerce:						
Federal Ship Financing Fund Fishing Vessels Liquidating Account .....	4			28.57		
Education:						
Federal Family Education Loans .....	2,757	2,644	2,349	6.08	6.11	5.91
Health Education Assistance Loans <sup>3</sup> .....			21			6.05
Health and Human Services:						
Health Education Assistance Loans <sup>3</sup> .....	22	21		3.88	3.82	
Housing and Urban Development:						
FHA-General and Special Risk Insurance .....	509	590	590	9.41	9.86	9.13
FHA-Mutual Mortgage Insurance .....	364	838	838	23.73	44.86	54.77
Interior:						
Indian Guaranteed Loans .....	8			40.00		
International Assistance Programs:						
Housing and Other Credit Guaranty Program .....		1			0.14	
Overseas Private Investment Corporation .....	9	10	10	4.81	3.91	3.55

**Table 23–7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS—Continued**

Agency and Program	In millions of dollars			As a percentage of outstanding loans <sup>1</sup>		
	2011 Actual	2012 Estimate	2013 Estimate	2011 Actual	2012 Estimate	2013 Estimate
Small Business Administration:						
Business Loans .....	2,200	2,337	2,386	18.69	18.71	18.73
Pollution Control Equipment Fund Liquidating Account .....	10	.....	.....	100.00	.....	.....
Veterans Affairs:						
Veterans Housing Benefit Program .....	4	3	2	19.05	18.75	18.18
<b>Total, write-offs of loans receivable .....</b>	<b>6,075</b>	<b>6,621</b>	<b>6,410</b>	<b>9.21</b>	<b>9.95</b>	<b>10.01</b>

<sup>1</sup> Loans outstanding at start of year plus new disbursements.

<sup>2</sup> Equity purchases under the TARP and the Small Business Lending Fund are reflected here as authorized by law.

<sup>3</sup> The Budget reflects the proposal to transfer the HEAL Loan Guarantee program from the Department of Health and Human Services to the Department of Education.

**Table 23–8. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS <sup>1</sup>**  
(In millions of dollars)

Agency and Program	2011 Actual	2012 Actual	2013 Estimate
<b>DIRECT LOAN OBLIGATIONS</b>			
Agriculture:			
Agricultural Credit Insurance Fund Direct Loan Financing Account .....	1,677	1,637	1,632
Distance Learning, Telemedicine, and Broadband Direct Loan Financing Account .....	37	736	94
Rural Economic Development Direct Loan Financing Account .....	29	79	33
Commerce:			
Fisheries Finance Direct Loan Financing Account .....	68	115	83
Education:			
Historically Black College and University Capital Financing Direct Loan Financing Account .....	178	368	320
Homeland Security:			
Disaster Assistance Direct Loan Financing Account .....	25	25	25
Housing and Urban Development:			
FHA-General and Special Risk Direct Loan Financing Account .....	20	20	20
FHA-Mutual Mortgage Insurance Direct Loan Financing Account .....	50	50	50
Emergency Homeowners' Relief Financing Account .....	210	.....	.....
Treasury:			
Community Development Financial Institutions Fund Direct Loan Financing Account .....	.....	25	1,025
Veterans Affairs:			
Vocational Rehabilitation Direct Loan Financing Account .....	2	3	3
International Assistance Programs:			
Development Credit Authority Direct Loan Financing Account .....	.....	.....	10
Small Business Administration:			
Business Direct Loan Financing Account .....	20	20	.....
<b>Total, limitations on direct loan obligations .....</b>	<b>2,316</b>	<b>3,078</b>	<b>8,032</b>
<b>LOAN GUARANTEE COMMITMENTS</b>			
Agriculture:			
Agricultural Credit Insurance Fund Guaranteed Loan Financing Account .....	3,143	3,150	3,150
Commerce:			
Economic Development Assistance Programs Financing Account .....	.....	70	39
Housing and Urban Development:			
Indian Housing Loan Guarantee Fund Financing Account .....	752	360	900
Title VI Indian Federal Guarantees Financing Account .....	19	20	18
Native Hawaiian Housing Loan Guarantee Fund Financing Account .....	42	33	38
Community Development Loan Guarantees Financing Account .....	275	240	500
FHA-General and Special Risk Guaranteed Loan Financing Account .....	20,000	25,000	25,000
FHA-Mutual Mortgage Insurance Guaranteed Loan Financing Account .....	400,000	400,000	400,000
Interior:			
Indian Guaranteed Loan Financing Account .....	84	73	73
Transportation:			
Minority Business Resource Center Guaranteed Loan Financing Account .....	18	18	22
International Assistance Programs:			
Development Credit Authority Guaranteed Loan Financing Account .....	700	750	750
Small Business Administration:			
Business Guaranteed Loan Financing Account <sup>2</sup> .....	26,540	47,064	34,650
<b>Total, limitations on loan guarantee commitments .....</b>	<b>451,573</b>	<b>476,778</b>	<b>465,140</b>
<b>ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS</b>			
Housing and Urban Development:			
Guarantees of Mortgage-Backed Securities Financing Account .....	500,000	500,000	500,000
Small Business Administration:			
Business Guaranteed Loan Financing Account .....	12,000	12,000	12,000
<b>Total, limitations on secondary guaranteed loan commitments .....</b>	<b>512,000</b>	<b>512,000</b>	<b>512,000</b>

<sup>1</sup> Data represent loan level limitations enacted or proposed to be enacted in appropriation acts. For information on actual and estimated loan levels supportable by new subsidy budget authority requested, see Tables 23–4 and 23–5.

<sup>2</sup> Amounts reflect the maximum contingent liability for SBA revolving credit facilities.

**Table 23–9. FACE VALUE OF GOVERNMENT-SPONSORED LENDING <sup>1</sup>**  
(In billions of dollars)

	Outstanding	
	2010	2011
<b>Government-Sponsored Enterprises:</b>		
Fannie Mae <sup>2</sup> .....	3,183	3,267
Freddie Mac <sup>3</sup> .....	2,061	1,963
Federal Home Loan Banks .....	500	415
Farm Credit System .....	166	167
<b>Total</b> .....	<b>5,909</b>	<b>5,812</b>

<sup>1</sup> New originations including issuance of securities and investment portfolio purchases, net of purchases of federally-guaranteed loans.

<sup>2</sup> Data for Fannie Mae are net of purchases of federally-guaranteed loans and Freddie Mac issuances, as reported by the FHFA.

<sup>3</sup> Data for Freddie Mac are net of purchases of federally-guaranteed loans and Fannie Mae issuances, as reported by the FHFA.



**Table 23-10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) <sup>1</sup>**

(In millions of dollars)

Enterprise	2011
<b>LENDING</b>	
Federal National Mortgage Association:	
Portfolio programs:	
Net change .....	-80,693
Outstandings .....	722,158
Mortgage-backed securities:	
Net change .....	162,555
Outstandings .....	2,567,555
Federal Home Loan Mortgage Corporation:	
Portfolio programs:	
Net change .....	-73,923
Outstandings .....	710,248
Mortgage-backed securities:	
Net change .....	48,785
Outstandings .....	1,498,273
Farm Credit System:	
Agricultural credit bank:	
Net change .....	-1,439
Outstandings .....	45,028
Farm credit banks:	
Net change .....	1,458
Outstandings .....	109,778
Federal Agricultural Mortgage Corporation:	
Net change .....	365
Outstandings .....	11,841
Federal Home Loan Banks:	
Net change .....	-93,316
Outstandings .....	470,665
Less federally-guaranteed loans purchased by:	
Federal National Mortgage Association:	
Net change .....	21,098
Outstandings .....	75,430
Federal Home Loan Mortgage Corporation:	
Net change .....	-1,556
Outstandings .....	4,211
Federal Home Loan Banks:	
Net change .....	3,146
Outstandings .....	10,112
Other:	
Net change .....	N/A
Outstandings .....	N/A
Less purchase of mortgage securities issued by other GSEs: <sup>2</sup>	
Net change .....	-46,440
Outstandings .....	113,020
<b>BORROWING</b>	
Federal National Mortgage Association:	
Portfolio programs:	
Net change .....	-92,037
Outstandings .....	738,173
Mortgage-backed securities:	

**Table 23-10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) <sup>1</sup>—Continued**

(In millions of dollars)

Enterprise	2011
Net change .....	162,555
Outstandings .....	2,567,555
Federal Home Loan Mortgage Corporation:	
Portfolio programs:	
Net change .....	-52,633
Outstandings .....	689,918
Mortgage-backed securities:	
Net change .....	48,785
Outstandings .....	1,498,273
Farm Credit System:	
Agricultural credit bank:	
Net change .....	1,980
Outstandings .....	56,295
Farm credit banks:	
Net change .....	2,404
Outstandings .....	130,979
Federal Agricultural Mortgage Corporation:	
Net change .....	3,131
Outstandings .....	10,606
Federal Home Loan Banks: <sup>3</sup>	
Net change .....	-111,140
Outstandings .....	702,798
<b>DEDUCTIONS <sup>4</sup></b>	
Less borrowing from other GSEs:	
Net change .....	N/A
Outstandings .....	N/A
Less purchase of Federal debt securities:	
Net change .....	N/A
Outstandings .....	N/A
Less borrowing to purchase federally-guaranteed loans and securities:	
Net change .....	22,688
Outstandings .....	89,753
Less borrowing to purchase mortgage securities issued by other GSEs: <sup>2</sup>	
Net change .....	-46,440
Outstandings .....	113,020

N/A = Not available.

<sup>1</sup> Data do not reflect an official view of future GSE activity, nor are the data reviewed by the President. The data for all years include programs of mortgage-backed securities. In cases where a GSE owns securities issued by the same GSE, including mortgage-backed securities, the borrowing and lending data for that GSE are adjusted to remove double-counting. Data for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks as reported by the FHFA.

<sup>2</sup> Includes Fannie Mae securities purchased by Freddie Mac and the Federal Home Loan Banks, and Freddie Mac securities purchased by Fannie Mae and the Federal Home Loan Banks.

<sup>3</sup> The net change in borrowings is derived from a year-over-year comparison of borrowings in the Federal Home Loan Banks' audited financial statements.

<sup>4</sup> Where totals and subtotals have not been calculated, a portion of the total is unavailable.



## 24. HOMELAND SECURITY FUNDING ANALYSIS

Section 889 of the Homeland Security Act of 2002 requires that a homeland security funding analysis be incorporated in the President's Budget. This analysis addresses that legislative requirement, and covers homeland security funding and activities of all Federal agencies, not just those carried out by the Department of Homeland Security (DHS). Since not all activities carried out by DHS

constitute traditional homeland security funding (e.g. response to natural disasters and Coast Guard search and rescue activities), DHS estimates in this section do not encompass the entire DHS budget. As also required in the Homeland Security Act of 2002, this analysis includes estimates of State, local, and private sector expenditures on homeland security activities.

**Table 24-1. HOMELAND SECURITY FUNDING BY AGENCY**  
(Budget authority in millions of dollars)

Agency	2011 Actual	2011 Supplemental/ Emergency	2012 Enacted	2013 Request
1 Department of Agriculture .....	580.0	.....	570.1	551.4
2 Department of Commerce .....	261.9	.....	289.6	304.1
3 Department of Defense .....	16,993.5	.....	17,358.4	17,955.1
4 Department of Education .....	30.0	.....	30.9	35.5
5 Department of Energy .....	1,994.3	.....	1,923.3	1,874.7
6 Department of Health and Human Services .....	4,181.5	.....	4,146.8	4,112.2
7 Department of Homeland Security .....	34,900.8	.....	35,124.7	35,533.7
8 Department of Housing and Urban Development .....	3.0	.....	3.0	3.0
9 Department of the Interior .....	57.7	.....	57.6	56.7
10 Department of Justice .....	3,965.8	.....	4,055.4	3,992.8
11 Department of Labor .....	42.5	.....	46.3	36.6
12 Department of State .....	1,949.1	.....	2,283.4	2,353.8
13 Department of Transportation .....	242.7	.....	246.6	243.3
14 Department of the Treasury .....	125.8	.....	123.0	121.1
15 Department of Veterans Affairs .....	413.1	.....	394.5	383.7
16 Corps of Engineers .....	35.5	.....	35.5	35.5
17 Environmental Protection Agency .....	108.1	.....	101.8	102.6
18 Executive Office of the President .....	9.4	.....	10.4	11.0
19 General Services Administration .....	19.0	.....	38.0	59.0
20 National Aeronautics and Space Administration .....	228.0	.....	228.9	216.1
21 National Science Foundation .....	386.0	.....	443.9	425.9
22 Office of Personnel Management .....	1.8	.....	1.3	0.6
23 Social Security Administration .....	212.5	.....	234.3	252.1
24 District of Columbia .....	15.0	.....	15.0	25.0
25 Federal Communications Commission .....	2.6	.....	.....	1.7
26 Intelligence Community Management Account* .....	13.3	.....	8.8	.....
27 National Archives and Records Administration .....	22.4	.....	22.6	22.5
28 Nuclear Regulatory Commission .....	72.9	.....	78.4	76.6
29 Securities and Exchange Commission .....	6.0	.....	8.0	8.0
30 Smithsonian Institution .....	98.4	.....	97.0	100.1
31 United States Holocaust Memorial Museum .....	10.0	.....	11.0	11.0
<b>Total, Homeland Security Budget Authority .....</b>	<b>66,982.58</b>	<b>.....</b>	<b>67,988.0</b>	<b>68,905.2</b>
Less Department of Defense .....	-16,993.5	.....	-17,358.4	-17,955.1
<b>Non-Defense Homeland Security BA .....</b>	<b>49,989.1</b>	<b>.....</b>	<b>50,629.7</b>	<b>50,950.1</b>
Less Fee-Funded Homeland Security Programs .....	-5,386.7	.....	-5,832.8	-5,968.9
Less Mandatory Homeland Security Programs .....	-2,926.4	.....	-3,096.5	-3,115.8
<b>Net Non-Defense Discretionary Homeland Security BA .....</b>	<b>41,676.0</b>	<b>.....</b>	<b>41,700.3</b>	<b>41,865.4</b>

\* Funding for the Intelligence Community Management Account was moved under DoD beginning in 2013.



The President's highest priority is to keep the American people safe. Homeland security budgetary priorities will continue to be informed by careful, government-wide strategic analysis and review.

### Data Collection Methodology and Adjustments

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

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

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

### Federal Expenditures

Total funding for homeland security has grown significantly since the attacks of September 11, 2001. For 2013, the President's Budget includes \$68.9 billion of gross bud-

get authority for homeland security activities, a \$917 million (1 percent) increase above the 2012 enacted appropriations level. Excluding mandatory spending, fees, and the Department of Defense's (DOD) homeland security budget, the 2013 Budget proposes a net, non-Defense, discretionary budget authority level of \$41.9 billion, which is an increase of \$165 million (0.4 percent) above the 2012 enacted appropriations level (see Table XX-1).

A total of 31 agency budgets include Federal homeland security funding in 2013. Six agencies—the Departments of Homeland Security, Defense, Health and Human Services (HHS), Justice (DOJ), State (DOS), and Energy (DOE)—account for approximately \$65.8 billion (96 percent) of total Government-wide gross discretionary homeland security funding in 2012.

As required by the Homeland Security Act, this analysis presents homeland security risk and spending in three broad categories: Prevent and Disrupt Terrorist Attacks; Protect the American People, Our Critical Infrastructure, and Key Resources; and Respond To and Recover From Incidents.

### Prevent and Disrupt Terrorist Attacks

Activities in the areas of intelligence-and-warning and domestic counterterrorism aim to disrupt the ability of terrorists to operate within our borders and prevent the emergence of violent radicalization. Intelligence-and-warning funding covers activities designed to detect terrorist activity before it manifests itself in an attack so that proper preemptive, preventive, and protective action can be taken. Specifically, it is made up of efforts to identify, collect, analyze, and distribute source intelligence information or the resulting warnings from intelligence analysis. It also includes information sharing activities among Federal, State, and local governments, relevant private sector entities, and the public at large; it does not include most foreign intelligence collection, although the resulting intelligence may inform homeland security activities. In 2013, funding for intelligence-and-warning is distributed between DHS (48 percent), primarily in the

**Table 24-2. PREVENT AND DISRUPT TERRORIST ATTACKS**  
(Budget authority in millions of dollars)

Agency	2011 Actual	2011 Supplemental/ Emergency	2012 Enacted	2013 Request
Department of Agriculture .....	255.7	.....	248.6	247.0
Department of Commerce .....	4.5	.....	3.9	3.7
Department of Energy .....	.....	.....	.....	.....
Department of Homeland Security .....	27,156.0	.....	28,011.5	27,103.5
Department of the Interior .....	0.3	.....	0.4	0.4
Department of Justice .....	3,334.3	.....	3,426.0	3,459.5
Department of Labor .....	0.4	.....	0.4	.....
Department of State .....	1,914.0	.....	2,240.1	2,310.0
Department of Transportation .....	40.7	.....	43.3	42.3
Department of the Treasury .....	75.2	.....	71.4	70.6
General Services Administration .....	.....	.....	.....	.....
<b>Total, Prevent and Disrupt Terrorist Attacks .....</b>	<b>32,781.0</b>	<b>.....</b>	<b>34,045.5</b>	<b>33,236.9</b>

Office of Intelligence and Analysis; and DOJ (43 percent), primarily in the Federal Bureau of Investigation (FBI). The 2013 funding for intelligence and warning activities is 1 percent below the 2012 enacted appropriations level.

Activities to deny terrorists and terrorist-related weapons and materials entry into our country and across all international borders include measures to protect border and transportation systems, such as screening airport passengers, detecting dangerous materials at ports overseas and at U.S. ports-of-entry, and patrolling our coasts and the land between ports-of-entry. Securing our borders and transportation systems is a complex task. Security enhancements in one area may make another avenue more attractive to terrorists. Therefore, our border and transportation security strategy aims to make the U.S. borders “smarter” while facilitating the flow of legitimate visitors and commerce. Government programs do this by targeting layered resources toward the highest risks and sharing information so that frontline personnel can stay ahead of potential adversaries. The majority of funding for border and transportation security (\$24.6 billion, or 91 percent, in 2013) is in DHS, largely for the U.S. Customs and Border Protection (CBP), the Transportation Security Administration (TSA), and the U.S. Coast Guard. Other DHS bureaus and other Federal Departments, such as the Department of State, also play a significant role. Many of these activities support the Obama Administration’s emphasis on reducing the illicit flow of drugs, currency, weapons, and people across our borders as well as targeting transnational criminal organizations operating along the Southwest border and elsewhere. The President’s 2013 request would reduce funding for border and transportation security activities by 2 percent from the 2012 enacted appropriations level.

Funding for domestic counterterrorism contains Federal and Federally-supported efforts to identify, thwart, and prosecute terrorists in the United States. It also includes pursuit not only of the individuals directly

involved in terrorist activity, but also their sources of support: the people and organizations that knowingly fund the terrorists and those that provide them with logistical assistance. In today’s world, preventing and interdicting terrorist activity within the United States is a priority for law enforcement at all levels of government. The largest contributors to the domestic counterterrorism goal are law enforcement organizations, with DOJ (largely for the FBI) and DHS (largely for ICE) accounting for 58 and 40 percent of funding for 2013, respectively.

### Protect the American People, Our Critical Infrastructure, and Key Resources

Critical infrastructure includes the assets, systems, and networks, whether physical or virtual, so vital to the United States that their destruction would have a debilitating effect on national economic or homeland security, public health or safety, or any combination thereof. Key resources are publicly or privately controlled resources essential to the minimal operations of the economy and government whose disruption or destruction could have significant consequences across multiple dimensions, including national monuments and icons.

Efforts to protect the American people include defending against catastrophic threats through research, development, and deployment of technologies, systems, and medical measures to detect and counter the threat of chemical, biological, radiological, and nuclear (CBRN) weapons. Funding encompasses activities to protect against, detect, deter, or mitigate the possible terrorist use of CBRN weapons through detection systems and procedures, improving decontamination techniques, and the development of medical countermeasures, such as vaccines, drugs and diagnostics to protect the public from the threat of a CBRN attack or other public health emergency. The agencies with the most significant resources to help develop and field technologies to counter CBRN threats

**Table 24–3. PROTECT THE AMERICAN PEOPLE, OUR CRITICAL INFRASTRUCTURE, AND KEY RESOURCES**

(Budget authority in millions of dollars)

Agency	2011 Actual	2011 Supplemental/ Emergency	2012 Enacted	2013 Request
Department of Agriculture .....	268.9	.....	269.1	253.8
Department of Commerce .....	203.2	.....	242.6	245.3
Department of Defense .....	15,944.4	.....	16,176.0	16,690.8
Department of Energy .....	1,763.8	.....	1,709.4	1,634.2
Department of Health and Human Services .....	2,210.9	.....	2,154.3	2,337.4
Department of Homeland Security .....	5,197.2	.....	5,310.1	5,759.1
Department of Justice .....	619.5	.....	617.3	521.2
Department of Veterans Affairs .....	337.3	.....	325.4	319.4
National Aeronautics and Space Administration .....	228.0	.....	228.9	216.1
National Science Foundation .....	386.0	.....	443.9	425.9
Social Security Administration .....	212.0	.....	233.8	251.6
Other Agencies .....	635.9	.....	661.7	676.0
<b>Total, Protect the American People, Our Critical Infrastructure, and Key Resources .....</b>	<b>28,007.1</b>	<b>.....</b>	<b>28,372.4</b>	<b>29,331.0</b>

are: HHS, largely for research at the National Institutes of Health (NIH) and for advanced development of medical countermeasures (\$2.2 billion, or 41 percent, of the 2013 total); DOD (\$1.4 billion, or 26 percent, of the 2013 total); and DHS (\$1.2 billion, or 23 percent, of the 2013 total).

Protecting the Nation's critical infrastructure and key resources (CI/KR) is a complex challenge for two reasons: (1) the diversity of infrastructure and (2) the high level of private ownership of the Nation's critical infrastructure and key assets. Efforts to protect CI/KR include unifying disparate efforts to protect critical infrastructure across the Federal Government and with State, local, and private stakeholders; accurately assessing CI/KR and prioritizing protective action based on risk; and reducing threats and vulnerabilities in cyberspace. In fact, securing our cyberspace is a top priority of the Obama Administration both to protect Americans and our way of life and as a foundation for continuing to grow the Nation's economy. DOD continues to report the largest share of funding in this category for 2013 (\$15.3 billion, or 64 percent), which includes programs focusing on physical security and improving the military's ability to prevent or mitigate the consequences of attacks against departmental personnel and facilities. DHS has overall responsibility for prioritizing and executing infrastructure protection activities at the national level and accounts for \$4.5 billion (19 percent) of 2013 funding. Another 25 agencies also report

funding to protect their own assets and work with States, localities, and the private sector to reduce vulnerabilities in their areas of expertise.

The President's 2013 request increases funding for activities to protect the Nation's people, critical infrastructure and key resources by \$959 million, or 3 percent.

### Respond To and Recover From Incidents

The ability to respond to and recover from incidents requires efforts to bolster capabilities nationwide to prevent and protect against terrorist attacks, and also minimize the damage from attacks through effective response and recovery. This includes programs that help to plan, equip, train, and practice the capabilities of many different response units (including first responders, such as police officers, firefighters, emergency medical providers, public works personnel, and emergency management officials) that are instrumental in their preparedness to mobilize without warning for an emergency. Building this capability encompasses a broad range of agency incident management activities, as well as grants and other assistance to States and localities for first responder preparedness capabilities. Response to natural disasters and other major incidents, including catastrophic natural events such as Hurricane Katrina and chemical or oil spills, like Deepwater Horizon, do not directly fall within the defini-

**Table 24-4 RESPOND TO AND RECOVER FROM INCIDENTS**

(Budget authority in millions of dollars)

Agency	2011 Actual	2011 Supplemental/ Emergency	2012 Enacted	2013 Request
Department of Agriculture .....	55.5	.....	52.4	50.6
Department of Commerce .....	54.3	.....	43.1	55.1
Department of Defense .....	1,049.1	.....	1,182.4	1,264.3
Department of Education .....	1.3	.....	1.2	1.2
Department of Energy .....	230.5	.....	213.9	240.5
Department of Health and Human Services .....	1,970.5	.....	1,992.5	1,774.7
Department of Homeland Security .....	2,547.7	.....	2,044.6	2,671.0
Department of Housing and Urban Development .....	3.0	.....	3.0	3.0
Department of the Interior .....	4.1	.....	4.4	4.4
Department of Justice .....	12.0	.....	12.1	12.1
Department of Labor .....	16.9	.....	17.4	17.6
Department of State .....	17.2	.....	25.4	25.8
Department of Transportation .....	24.2	.....	21.6	22.4
Department of the Treasury .....	34.7	.....	35.9	35.9
Department of Veterans Affairs .....	75.8	.....	69.1	64.3
Environmental Protection Agency .....	53.4	.....	53.6	53.6
Executive Office of the President .....	4.2	.....	5.2	4.1
General Services Administration .....	3.0	.....	3.0	3.0
Office of Personnel Management .....	0.6	.....	0.4	0.2
Social Security Administration .....	0.4	.....	0.5	0.5
District of Columbia .....	15.0	.....	15.0	25.0
Federal Communications Commission .....	2.6	.....	.....	1.7
Intelligence Community Management Account* .....	13.3	.....	8.8	.....
National Archives and Records Administration .....	1.3	.....	1.3	1.3
Securities and Exchange Commission .....	4.0	.....	5.0	5.0
<b>Total, Respond To and Recover From Incidents .....</b>	<b>6,194.6</b>	<b>.....</b>	<b>5,811.7</b>	<b>6,337.3</b>

\* Funding for the Intelligence Community Management Account was moved under DoD beginning in 2013.

tion of a homeland security activity for funding purposes, as defined by section 889 of the Homeland Security Act of 2002. Preparing for terrorism-related threats includes many activities that also support preparedness for catastrophic natural and man-made disasters, however. Additionally, lessons learned from the response to Hurricane Katrina have been used to revise and strengthen catastrophic response planning. The agencies with the most significant participation in this effort are: DHS (\$2.7 billion, or 42 percent, of the 2013 total); and HHS (\$1.8 billion, or 28 percent, of the 2013 total). Twenty-three other agencies include emergency preparedness and response funding. The President's 2013 request would increase funding by \$526 million (9 percent) above the 2012 enacted appropriations level.

### Continue to Strengthen the Homeland Security Foundation

Preventing and disrupting terrorist attacks; protecting the American people, critical infrastructure, and key resources; and responding to and recovering from incidents that do occur are enduring homeland security responsibilities. For the long-term fulfillment of these responsibilities it is necessary to continue to strengthen the principles, systems, structures, and institutions that cut across the homeland security enterprise and support our activities to secure the Nation. Long-term success across several cross-cutting areas is essential to protect the United States. In addition, an all-of-Nation integration of effort and the leveraging of resources that exist in local communities, as manifest in the Obama Administration's "Whole of Community" initiative, for example, are essential to effective preparedness and incident response capabilities. While these areas are not quantifiable in terms of budget figures, they are important elements in the management and budgeting processes. As the Administration sets priorities and determines funding for new and existing homeland security programs, consideration must be given to areas such as the assessment and management of risk, which underlie the full spectrum of homeland security activities. This includes decisions about when, where, and how to invest resources in capabilities or assets that eliminate, control, or mitigate risks. Likewise, research and development initiatives promote the application of science and technology to homeland security activities and can drive improvements in processes and efficiencies to reduce the vulnerability of the Nation.

### Non-Federal Expenditures<sup>1</sup>

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

<sup>1</sup> OMB does not collect detailed homeland security expenditure data from State, local, or private entities directly.

many cases, own-source spending has supplemented the resources provided by the Federal Government.

Many governments and businesses, though not all, place a high priority on, and provide additional resources, for security. A 2004 survey conducted by the National Association of Counties found, that as a result of intergovernmental homeland security planning and funding processes, three out of four counties believed they were better prepared to respond to terrorist threats. Moreover, almost 40 percent of the surveyed counties had appropriated their own funds to assist with homeland security. Own-source resources supplemented funds provided by States and the Federal Government. However, the same survey revealed that 54 percent of counties had not used any of their own funds.<sup>2</sup> The survey's findings were based on the responses from 471 counties (15 percent) nationwide, out of 3,140 counties or equivalents.<sup>3</sup>

A recent study conducted by the Heritage Foundation, one of the few organizations to compile homeland security spending estimates from States and localities, provides data on State and local spending in support of homeland security activities.<sup>4</sup> The report surveyed 43 jurisdictions that are eligible for DHS' Urban Areas Security Initiative (UASI) grant funds due to the risk of a terrorist attack.<sup>5</sup> These jurisdictions are home to approximately 145 million people or 47 percent of the total United States population. According to the report, the 2007 homeland security budgets for the jurisdictions examined (which include 26 States and the District of Columbia, 50 primary cities, and 35 primary counties) totaled \$37 billion, while the same entities received slightly more than \$2 billion in Federal homeland security grants.<sup>6</sup> The report further states that from 2000 - 2007, these States and localities spent \$220 billion on homeland security activities, which includes increases of three to six percent a year for law enforcement and fire services budgets, and received over \$10 billion in Federal grants. California, the most populous State, is also the largest recipient of Federal homeland security funds, having received almost \$1.5 billion

<sup>2</sup> Source: National Association of Counties, "Homeland Security Funding—2003 State Homeland Security Grants Programs I and II."

<sup>3</sup> The National Association of Counties conducted a survey through its various state associations (48), responses were received from 471 counties in 26 states.

<sup>4</sup> Source: Matt A. Mayer, "An Analysis of Federal, State, and Local Homeland Security Budgets," A Report of the Heritage Center for Data Analysis, CDA09-01, March 9, 2009, at [http://www.heritage.org/Research/HomelandSecurity/upload/CDA\\_09\\_01.pdf](http://www.heritage.org/Research/HomelandSecurity/upload/CDA_09_01.pdf). Figures cited in this report have not been independently verified by the Office of Management and Budget.

<sup>5</sup> The Heritage Foundation report's methodology in selecting the states, cities, and counties to include in the report is as follows: the state had to possess a designated UASI jurisdiction and the city and county had to belong to a designated UASI jurisdiction that had received at least \$15 million from 2003 to 2007 from the DHS.

<sup>6</sup> The Heritage Foundation report's budget data for homeland security included primary law enforcement agencies, fire departments, homeland security offices, and emergency management agencies. In some cases, state and local emergency management agency budget data was embedded in the fire department budget data and was not separately noted in its own category.



from 2000 - 2007, while spending over \$45 billion in State and local funding. Over the same time period, the top ten most populous States (including California) spent \$148 billion on State and local homeland security related activities.

There is also a diversity of responses in the businesses community. A 2003 survey of 199 corporate security directors conducted by the Conference Board showed that just over half of the companies reported that they had permanently increased security spending post-September 11, 2001.<sup>7</sup> About 15 percent of the companies surveyed had increased their security spending by 20 percent or more.<sup>8</sup> Large increases in spending were especially evident in critical industries, such as transportation, energy,

<sup>7</sup> Source: Thomas E. Cavanagh and Meredith Whiting, "2003 Corporate Security Management: Organization and Spending Since 9/11," The Conference Board. R-1333-03-RR. July 2003. This survey had a sample size of 199 corporate security directors, of which 96 were in "critical industries", while the remaining 103 were in "non-critical industries." In the report, the Conference Board states that it followed the DHS usage of critical industries, "defined as the following: transportation; energy and utilities; financial services; media and telecommunications; information technology; and healthcare."

<sup>8</sup> The Conference Board survey cites the sample size for this statistic was 192 corporate security directors.

financial services, media and telecommunications, information technology, and healthcare. However, about one-third of the surveyed companies reported that they had not increased their security spending after September 11th.<sup>9</sup> Given the difficulty of obtaining survey results that are representative of the universe of States, localities, and businesses, it is likely that there will be a wide range of estimates of non-Federal security spending for critical infrastructure protection.

### Additional Tables

The tables in the Federal expenditures section of this chapter present data based on the President's policy for the 2013 Budget. The tables below present additional policy and baseline data, as directed by the Homeland Security Act of 2002.

An appendix of account-level funding estimates is available on the *Analytical Perspectives* CD ROM.

<sup>9</sup> The Conference Board survey cites the sample size for this statistic was 199 corporate security directors.

**Table 24-5. DISCRETIONARY FEE-FUNDED HOMELAND SECURITY ACTIVITIES BY AGENCY**

(Budget authority in millions of dollars)

Agency	2011 Enacted	2011 Supplemental/ Emergency	2012 Enacted	2013 Request
Department of Energy .....	11.6	.....	16.0	18.1
Department of Homeland Security .....	3,184.0	.....	3,391.5	3,485.7
Department of State .....	1,959.0	.....	2,153.0	2,154.0
General Services Administration .....	11.0	.....	30.0	51.0
Social Security Administration .....	212.5	.....	234.3	252.1
Federal Communications Commission .....	2.6	.....	.....	.....
Securities and Exchange Commission .....	6.0	.....	8.0	8.0
<b>Total, Discretionary Homeland Security Fee-Funded Activities .....</b>	<b>5,386.7</b>	<b>.....</b>	<b>5,832.8</b>	<b>5,968.9</b>

**Table 24-6. MANDATORY HOMELAND SECURITY FUNDING BY AGENCY**

(Budget authority in millions of dollars)

Agency	2011 Actual	2011 Supplemental/ Emergency	2012 Enacted	2013 Request
Department of Agriculture .....	215.6	.....	214.6	216.7
Department of Defense .....	281.0	.....	266.4	275.3
Department of Energy .....	8.0	.....	13.0	15.0
Department of Health and Human Services .....	0.4	.....	0.2	0.2
Department of Homeland Security .....	2,412.9	.....	2,591.8	2,606.8
Department of Labor .....	8.5	.....	10.6	1.7
<b>Total, Homeland Security Mandatory Programs .....</b>	<b>2,926.4</b>	<b>.....</b>	<b>3,096.5</b>	<b>3,115.8</b>



**Table 24–7. BASELINE ESTIMATES—TOTAL HOMELAND SECURITY FUNDING BY AGENCY**  
(Budget authority in millions of dollars)

Agency	2012	Baseline				
		2013	2014	2015	2016	2017
Department of Agriculture .....	571	582	592	605	616	630
Department of Commerce .....	290	295	301	308	316	323
Department of Defense .....	16,604	16,952	17,277	17,640	18,008	18,387
Department of Education .....	31	32	32	33	33	34
Department of Energy .....	1,925	1,960	1,995	2,032	2,072	2,111
Department of Health and Human Services .....	4,148	4,229	4,312	4,403	4,495	4,590
Department of Homeland Security .....	34,870	35,898	36,937	38,001	39,097	40,248
Department of Housing and Urban Development .....	3	3	3	3	3	3
Department of the Interior .....	59	60	62	65	68	69
Department of Justice .....	4,055	4,177	4,306	4,441	4,580	4,728
Department of Labor .....	46	35	36	36	36	36
Department of State .....	2,283	2,326	2,369	2,417	2,465	2,516
Department of Transportation .....	253	262	272	281	293	304
Department of the Treasury .....	123	128	131	135	139	143
Department of Veterans Affairs .....	395	401	409	420	430	441
Corps of Engineers .....	36	37	37	38	39	39
Environmental Protection Agency .....	102	104	106	110	111	117
Executive Office of the President .....	10	10	10	11	11	11
General Services Administration .....	38	38	39	39	40	41
National Aeronautics and Space Administration .....	230	233	237	242	246	250
National Science Foundation .....	444	452	458	467	475	484
Office of Personnel Management .....	2	2	2	2	2	2
Social Security Administration .....	234	252	256	261	265	270
District of Columbia .....	.....	2	2	2	2	2
Federal Communications Commission .....	15	15	15	16	16	16
Intelligence Community Management Account .....	2	2	2	2	2	2
National Archives and Records Administration .....	9	9	9	9	10	10
Nuclear Regulatory Commission .....	23	23	24	24	25	25
Securities and Exchange Commission .....	78	80	83	86	88	91
Smithsonian Institution .....	8	8	8	8	9	9
United States Holocaust Memorial Museum .....	96	100	105	109	113	117
<b>Total, Homeland Security Budget Authority .....</b>	<b>66,983</b>	<b>68,707</b>	<b>70,427</b>	<b>72,246</b>	<b>74,105</b>	<b>76,049</b>
Less Department of Defense .....	-16,604	-16,952	-17,277	-17,640	-18,008	-18,387
<b>Non-Defense Homeland Security BA .....</b>	<b>50,379</b>	<b>51,755</b>	<b>53,150</b>	<b>54,606</b>	<b>56,097</b>	<b>57,662</b>
Less Fee-Funded Homeland Security Programs .....	-5,860	-6,009	-6,110	-6,222	-6,333	-6,449
Less Mandatory Homeland Security Programs .....	-3,099	-3,114	-3,208	-3,259	-3,311	-3,377
<b>Net Non-Defense, Discretionary Homeland Security BA .....</b>	<b>41,420</b>	<b>42,632</b>	<b>43,832</b>	<b>45,125</b>	<b>46,453</b>	<b>47,836</b>
<b>Obligations Limitations</b>						
Department of Transportation Obligations Limitation .....	36	37	37	38	39	39

**Table 24–8. HOMELAND SECURITY FUNDING BY BUDGET FUNCTION**  
(Budget authority in millions of dollars)

Budget Function	2011 Actual	2012 Enacted	2013 Request
National Defense .....	21,777	21,463	22,989
International Affairs .....	1,949	2,283	2,353
General Science Space and Technology .....	697	754	726
Energy .....	126	120	130
Natural Resources and the Environment .....	273	270	267
Agriculture .....	559	559	539
Commerce and Housing Credit .....	184	210	1,401
Transportation .....	11,256	11,095	10,975
Community and Regional Development .....	3,434	2,573	3,218
Education, Training, Employment and Social Services .....	163	168	180
Health .....	4,179	4,139	4,104
Medicare .....	28	24	22
Income Security .....	12	15	4
Social Security .....	212	234	252
Veterans Benefits and Services .....	415	395	385
Administration of Justice .....	20,445	21,188	20,950
General Government .....	1,261	1,503	1,599
<b>Total, Homeland Security Budget Authority .....</b>	<b>66,970</b>	<b>66,993</b>	<b>70,094</b>
Less National Defense, DoD .....	-16,711	-16,336	-17,678
<b>Non-Defense Homeland Security BA .....</b>	<b>50,259</b>	<b>50,657</b>	<b>52,416</b>
Less Fee-Funded Homeland Security Programs .....	-5,367	-5,809	-6,060
Less Mandatory Homeland Security Programs .....	-2,926	-3,106	-4,305
<b>Net Non-Defense, Discretionary Homeland Security BA .....</b>	<b>41,966</b>	<b>41,742</b>	<b>42,051</b>

**Table 24–9. BASELINE ESTIMATES—HOMELAND SECURITY FUNDING BY BUDGET FUNCTION**  
(Budget authority in millions of dollars)

Budget Function	2012	Baseline				
		2013	2014	2015	2016	2017
National Defense .....	21,463	21,924	22,363	22,850	23,349	23,861
International Affairs .....	2,283	2,326	2,369	2,417	2,465	2,516
General Science Space and Technology .....	754	766	778	793	807	821
Energy .....	120	124	128	131	134	137
Natural Resources and the Environment .....	270	275	281	290	296	305
Agriculture .....	559	570	579	592	603	616
Commerce and Housing Credit .....	210	214	217	223	229	234
Transportation .....	11,095	11,405	11,793	12,156	12,536	12,928
Community and Regional Development .....	2,573	2,620	2,660	2,712	2,762	2,813
Education, Training, Employment and Social Services .....	168	173	179	184	189	194
Health .....	4,139	4,219	4,301	4,391	4,482	4,576
Medicare .....	24	25	27	28	29	31
Income Security .....	15	4	4	4	4	4
Social Security .....	234	252	256	261	265	270
Veterans Benefits and Services .....	395	401	409	420	430	441
Administration of Justice .....	21,188	21,844	22,491	23,173	23,876	24,623
General Government .....	1,503	1,573	1,600	1,629	1,658	1,688
<b>Total, Homeland Security Budget Authority .....</b>	<b>66,993</b>	<b>68,715</b>	<b>70,435</b>	<b>72,254</b>	<b>74,114</b>	<b>76,058</b>
Less National Defense, DoD .....	-16,604	-16,952	-17,277	-17,640	-18,008	-18,387
<b>Non-Defense, Discretionary Homeland Security BA .....</b>	<b>50,389</b>	<b>51,763</b>	<b>53,158</b>	<b>54,614</b>	<b>56,106</b>	<b>57,671</b>
Less Fee-Funded Homeland Security Programs .....	-5,860	-6,009	-6,110	-6,222	-6,333	-6,449
Less Mandatory Homeland Security Programs .....	-3,099	-3,114	-3,208	-3,259	-3,311	-3,377
<b>Net Non-Defense, Discretionary Homeland Security BA .....</b>	<b>41,430</b>	<b>42,640</b>	<b>43,840</b>	<b>45,133</b>	<b>46,462</b>	<b>47,845</b>
<b>Obligations Limitations</b>						
Department of Transportation Obligations Limitation .....	36	37	37	38	39	39

## 25. FEDERAL DRUG CONTROL FUNDING

The FY 2013 request includes information from two additional Departments and two new programs to the National Drug Control Budget. These additions are consistent with the restructuring of the National Drug Control Budget in FY 2012. The new bureaus or programs, which will be reflected in the National Drug Control Strategy, FY 2013 Budget and Performance Summary (Summary), are:

- Labor: Employment and Training Administration: (comprehensive drug prevention and intervention program for all Job Corps participants)
- Housing and Urban Development: Continuum of Care (housing and other efforts in support of homeless with substance abuse disorders)
- Defense: Defense Health Program (drug abuse treatment provided by military treatment facilities and private sector care)

- Health and Human Services: Administration for Children and Families (enhancing the safety of children affected by parental methamphetamine or other substance abuse).

In accordance with Section 202 of the ONDCP Reauthorization Act of 2006 (P.L. 109-469) and the GPRA Modernization Act of 2010, the Office of National Drug Control Policy (ONDCP) working with Federal drug control agencies has developed a cross-agency performance monitoring and assessment mechanism – the Performance Reporting System (PRS). The PRS will monitor the extent of interagency progress towards achieving the goals and objectives of the National Drug Control Strategy. The first PRS Report will be published in 2012 along with the Strategy.

**Table 25-1. FEDERAL DRUG CONTROL FUNDING, 2011-2013 <sup>1</sup>**  
(Budget authority, in millions of dollars)

Department/Agency	Enacted		2013 Request
	2011	2012	
<b>Department of Agriculture:</b>			
U.S. Forest Service .....	15.3	15.2	14.7
<b>Court Services and Offender Supervision Agency for the District of Columbia:</b> .....	<b>52.8</b>	<b>53.1</b>	<b>52.4</b>
<b>Department of Defense:</b> <sup>2</sup>			
Drug Interdiction and Counterdrug Activities .....	1,595.2	1,666.1	1,467.7
OPTEMPO <sup>3</sup> .....	148.1	162.8	162.6
Defense Health Program .....	93.3	96.5	94.9
<b>Total DOD</b> .....	<b>1,836.5</b>	<b>1,925.3</b>	<b>1,725.2</b>
<b>Department of Education:</b> .....	<b>123.9</b>	<b>64.9</b>	<b>108.3</b>
<b>Federal Judiciary:</b> .....	<b>1,126.9</b>	<b>1,133.3</b>	<b>1,164.5</b>
<b>Department of Health and Human Services:</b>			
Administration for Children and Families .....	20.0	20.0	20.0
Centers for Medicare and Medicaid Services <sup>4</sup> .....	4,643.8	4,467.4	4,751.1
Health Resources and Services Administration .....	16.9	18.1	18.3
Indian Health Service .....	96.0	98.1	96.8
National Institute on Alcohol Abuse and Alcoholism .....	56.9	57.0	56.8
National Institute on Drug Abuse .....	1,048.8	1,052.1	1,054.0
Substance Abuse and Mental Health Services Administration <sup>5</sup> .....	2,576.8	2,565.8	2,470.9
<b>Total HHS</b> .....	<b>8,459.2</b>	<b>8,278.5</b>	<b>8,467.9</b>
<b>Department of Homeland Security:</b>			
Customs and Border Protection .....	2,238.3	2,280.3	2,276.4
Federal Emergency Management Agency <sup>6</sup> .....	8.3	7.5	0.0
Federal Law Enforcement Training Center .....	47.8	48.5	46.3
Immigration and Customs Enforcement .....	504.5	523.5	503.1
Office of Counternarcotics Enforcement .....	2.9	1.8	0.0
U.S. Coast Guard <sup>7</sup> .....	1,408.1	977.3	1,124.9
<b>Total DHS</b> .....	<b>4,209.8</b>	<b>3,838.9</b>	<b>3,950.7</b>
<b>Department of Housing and Urban Development:</b>			
Continuum of Care .....	<b>464.2</b>	<b>446.0</b>	<b>542.4</b>

**Table 25–1. FEDERAL DRUG CONTROL FUNDING, 2011– 2013<sup>1</sup>—Continued**  
(Budget authority, in millions of dollars)

Department/Agency	Enacted		2013 Request
	2011	2012	
<b>Department of the Interior:</b>			
Bureau of Indian Affairs .....	10.0	10.0	10.0
Bureau of Land Management .....	5.1	5.1	5.1
National Park Service .....	3.3	3.3	3.3
<b>Total DOI .....</b>	<b>18.4</b>	<b>18.4</b>	<b>18.4</b>
<b>Department of Justice:</b>			
Asset Forfeiture Fund .....	214.662	224.76	236
Bureau of Prisons .....	3,287.6	3,396.9	3,517.3
Criminal Division .....	12.3	12.3	12.6
Drug Enforcement Administration .....	2,305.9	2,347.0	2,387.9
Interagency Crime and Drug Enforcement .....	527.5	527.5	524.8
Federal Prisoner Detention / [Office of Federal Detention Trustee] .....	533.0	580.0	604.0
Office of Justice Programs .....	226.3	162.0	244.6
National Drug Intelligence Center .....	34.0	20.0	0.0
U.S. Attorneys .....	82.2	79.5	80.6
U.S. Marshals Service .....	237.7	248.9	250.8
<b>Total DOJ .....</b>	<b>7,461.3</b>	<b>7,598.8</b>	<b>7,858.6</b>
<b>Department of Labor:</b>			
Employment and Training Administration .....	<b>6.6</b>	<b>6.6</b>	<b>6.5</b>
<b>Office of National Drug Control Policy:</b>			
Operations .....	27.1	24.5	23.4
Counterdrug Technology Assessment Center .....	0.0	0.0	0.0
High Intensity Drug Trafficking Area Program .....	238.5	238.5	200.0
Other Federal Drug Control Programs .....	140.6	105.6	118.6
<b>Total ONDCP .....</b>	<b>406.2</b>	<b>368.6</b>	<b>342.0</b>
<b>Department of State:<sup>8</sup></b>			
Bureau of International Narcotics and Law Enforcement Affairs .....	575.3	513.2	507.8
Economic Support and Development Assistance .....	198.6	283.3	179.1
<b>Total DOS .....</b>	<b>773.9</b>	<b>796.5</b>	<b>686.9</b>
<b>Department of the Transportation:</b>			
Federal Aviation Administration .....	27.9	28.7	28.8
National Highway Safety Administration .....	2.7	2.7	4.0
<b>Total DOT .....</b>	<b>30.6</b>	<b>31.4</b>	<b>32.8</b>
<b>Small Business Administration: .....</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Department of the Treasury:</b>			
Internal Revenue Service .....	60.1	60.3	60.6
<b>Department of Veterans Affairs:</b>			
Veterans Health Administration <sup>9</sup> .....	532.9	548.7	568.2
<b>Total Federal Drug Budget .....</b>	<b>25579.6</b>	<b>25184.5</b>	<b>25600.0</b>

<sup>1</sup> Detail may not add due to rounding.

<sup>2</sup> DOD amounts include funding appropriated or requested for overseas contingency operations.

<sup>3</sup> OPTEMPO funding (flight hours and steaming days) is reported by the military services and is not part of DOD's counter-drug activities budget request.

<sup>4</sup> The Department of Health and Human Services' (HHS) Centers for Medicare and Medicaid Services (CMS) outlay estimates include substance abuse treatment expenditures for both Medicare and Medicaid. While CMS's Office of the Actuary (OACT) developed the Medicare estimates, Medicaid estimates were developed as a placeholder by ONDCP, based on data in the 2008 Report from HHS entitled 'SAMHSA spending estimates: MHSAs spending projections for 2004–2014'. OACT did not develop nor approve the Medicaid estimates. Medicaid estimates are not consistent with the FY 2013 President's Budget Medicaid baseline projections, and do not incorporate the impact of recent legislation (including the Recovery Act and the Affordable Care Act), or recent economic and policy changes to the programs. These estimates are for use while HHS develops a more precise estimate consistent with current program spending.

<sup>5</sup> Includes budget authority and funding through evaluation set-aside authorized by Section 241 of the Public Health Service (PHS) Act.

<sup>6</sup> FEMA amount reflects Operation Stonegarden grant funding.

<sup>7</sup> The USCG budgets by appropriation rather than individual missions. The USCG projects resource allocations by mission through use of an activity-based costing system. Actual allocations will vary depending upon operational environment and mission need. In FY 2011, the USCG anticipated allocating \$1,162.3 toward the drug interdiction mission. According to the USCG operations database, however, actual EOY allocation totaled \$1,408.1 million.

<sup>8</sup> State Department amounts include funding appropriated or requested for overseas contingency operations.

<sup>9</sup> VA Medical Care receives advance appropriations; FY 2013 funding was provided in the Consolidated Appropriations Act, 2012 (Public Law 112–74).



## 26. CALIFORNIA BAY-DELTA FEDERAL BUDGET CROSSCUT

The California Bay-Delta program is a cooperative effort among the Federal Government, the State of California, local governments, and water users, to proactively address the water management and aquatic ecosystem needs of California's Central Valley. This valley, one of the most productive agricultural regions of the world, is drained by the Sacramento River in the north and the San Joaquin River in the south. The two rivers meet southwest of Sacramento, forming the Sacramento-San Joaquin Delta, and drain west into San Francisco Bay.

The Bay-Delta is the hub of the nation's largest water delivery system, providing drinking water to 25 million Californians. According to the State of California, it supports about \$400 billion of annual economic activity, including a \$28 billion agricultural industry and a robust and diverse recreational industry.

The extensive development of the area's water resources has boosted agricultural production, but has also adversely affected the region's ecosystems. Bay-Delta participants recognized the need to provide a high-quality, reliable and sustainable water supply for California, while at the same time restoring and maintaining the ecological integrity of the area and mitigating flood risks. This recognition resulted in the 1994 Bay-Delta Accord, which laid the foundation for the CALFED Bay-Delta Authorization Act of 2004 (P.L. 108-361). The program has since adapted and evolved into a broader Bay-Delta program which includes the Bay-Delta Conservation Plan, the Delta Science Program, and the soon to be released Delta Plan (May 2012). Federal activities are currently coordinated through the Interim Federal Action Plan (established in 2010), under the leadership of the White House Council on Environmental Quality,

the Department of the Interior, and California's Delta Stewardship Council.

The Interim Federal Action Plan uses an adaptive management approach to water resources development & management and continues to develop strategies to balance achievement among the program's four objectives: a renewed Federal-state partnership, smarter water supply & use, habitat restoration, and drought & floodplain management. The partners signed a Record of Decision in 2000 and a Memorandum of Understanding in 2009, detailing the different program components and goals. The program uses scientific monitoring to track progress being made toward reaching near-term objectives and longer range success. Federal agencies contributing to the Bay-Delta program include: the Department of the Interior's Bureau of Reclamation, U.S. Fish and Wildlife Service, and U.S. Geological Survey; the Department of Agriculture's Natural Resources Conservation Service; the Department of Defense's U.S. Army Corps of Engineers; the Department of Commerce's National Oceanic and Atmospheric Administration; and the Environmental Protection Agency.

The 2013 Budget includes a crosscut of estimated Federal funding by each of the participating agencies, fulfilling the reporting requirements of P.L. 108-361. Additional tables and narrative that further account for recent programmatic and funding changes can be found in the CD-ROM included with the Analytical Perspectives. Please note that some funding amounts included in previous budgets have been updated to align with the programs and activities outlined in the Interim Federal Action Plan. More information about the Interim Federal Action Plan can be found at <http://www.doi.gov/documents/CAWaterWorkPlan.pdf>.

**Table 26-1. BAY-DELTA FEDERAL FUNDING BUDGET CROSSCUT**

(In millions of dollars)

Agency	Enacted															Pres. Budget 2013
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 <sup>1</sup>	2010	2011	2012	
Bureau of Reclamation .....	153.4	114.7	138.5	79.8	103.3	74.2	75.7	81.1	99.8	101.3	66.1	156.8	94.7	185.5	172.7	110.8
Corps of Engineers .....	100.7	103.3	93.8	54.2	58.2	57.8	72.6	52.3	91.3	87.4	51.2	140.7	72.5	78.0	44.5	53.8
USDA - NRCS .....	0.0	14.5	12.9	17.0	39.1	38.4	48.8	36.4	34.6	26.9	40.9	44.4	39.7	56.1	56.1	44.2
NOAA Fisheries .....	0.3	0.4	0.5	0.6	0.6	0.8	0.8	0.8	0.8	0.5	0.5	0.5	0.5	1.6	1.4	1.4
Geological Survey .....	3.2	3.2	4.3	5.4	5.1	4.9	4.9	5.4	5.2	4.1	3.7	3.7	3.4	6.0	6.0	7.3
Fish and Wildlife Service .....	0.9	1.1	3.7	18.2	5.6	11.2	13.7	8.9	10.7	7.5	22.0	24.2	6.5	9.2	4.9	4.9
EPA .....	3.2	3.1	57.3	53.4	54.3	20.7	62.8	97.7	36.6	36.1	68.3	161.5	123.7	88.0	85.4	73.1
<b>Totals: .....</b>	<b>261.6</b>	<b>240.3</b>	<b>310.8</b>	<b>228.4</b>	<b>266.2</b>	<b>208.0</b>	<b>279.3</b>	<b>282.6</b>	<b>279.0</b>	<b>263.9</b>	<b>252.8</b>	<b>531.9</b>	<b>341.1</b>	<b>424.4</b>	<b>370.9</b>	<b>295.4</b>

<sup>1</sup>The FY 2009 total includes American Recovery and Reinvestment Act projects and activities.



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## TECHNICAL BUDGET ANALYSES

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## 27. CURRENT SERVICES ESTIMATES

Current services, or “baseline,” estimates are designed to provide a benchmark against which policy proposals can be measured. A baseline is not a prediction of the final outcome of the annual budget process, nor is it a proposed budget. It can be a useful tool in budgeting, however. It can be used as a benchmark against which to measure the magnitude of the policy changes in the President’s Budget or other budget proposals, and it can also be used to warn of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs.

Since the early 1970s, when the first requirements for the calculation of a “current services” baseline were enacted, a variety of concepts and measures have been employed. Shortly after a detailed set of rules for calculating a baseline was enacted through amendments to the Balanced Budget Emergency Deficit Control Act of 1985 (BBEDCA) made by the Budget Enforcement Act of 1990

(BEA), there was a consensus to define the current services estimates according to those rules. The BBEDCA baseline rules were recently reinstated through amendments to BBEDCA enacted in the Budget Control Act of 2011 (BCA). However, the BBEDCA baseline has flaws, which compromise its ability to serve as an appropriate benchmark. This section provides detailed estimates of a baseline that corrects for some of these flaws. It also discusses alternative formulations for the baseline.

Ideally, a current services baseline would provide a projection of estimated receipts, outlays, deficits or surpluses, and budget authority needed to reflect this year’s enacted policies and programs for each year in the future. Because such a concept would be nearly impossible to apply across all segments of the government, the baseline has instead become a more mechanical construct whose levels may be considered a representation of current services when viewed in aggregate.

**Table 27-1. CATEGORY TOTALS FOR THE ADJUSTED BASELINE**  
(In billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Receipts .....	2,303	2,590	2,882	3,145	3,273	3,444	3,711	3,939	4,164	4,367	4,610	4,855
Outlays:												
Discretionary:												
Defense .....	699	709	667	626	626	635	651	667	682	698	715	766
Non-defense .....	600	610	545	515	509	509	517	525	537	549	561	594
Subtotal, discretionary .....	1,300	1,319	1,212	1,142	1,135	1,144	1,168	1,192	1,219	1,247	1,276	1,360
Mandatory:												
Social Security .....	725	773	820	867	918	970	1,027	1,086	1,149	1,217	1,287	1,361
Medicare .....	480	478	528	564	586	640	660	685	751	811	873	967
Medicaid and CHIP .....	284	265	293	350	383	418	439	463	492	522	559	595
Other mandatory .....	585	660	554	574	608	646	654	652	690	721	770	840
Subtotal, mandatory .....	2,073	2,175	2,195	2,355	2,495	2,673	2,779	2,886	3,082	3,271	3,490	3,763
Disaster costs <sup>1</sup> .....	–	*	2	5	7	8	9	9	10	10	10	10
Net interest .....	230	223	246	305	384	480	570	645	716	782	846	915
Total, outlays .....	3,603	3,717	3,655	3,807	4,021	4,306	4,526	4,732	5,026	5,310	5,621	6,048
Unified deficit(+)/surplus(–) .....	1,300	1,127	772	662	749	862	815	793	862	944	1,011	1,193
On-budget .....	1,367	1,186	810	689	769	887	839	819	884	954	1,016	1,197
Off-budget .....	–67	–60	–38	–27	–21	–25	–23	–26	–22	–10	–5	–4
Memorandum:												
BBEDCA baseline deficit .....	1,300	1,097	598	438	492	556	463	396	411	436	444	483
Adjustments to reflect current tax policies .....	–	21	245	330	363	402	438	472	507	543	581	621
Adjustments to reflect current spending policies and disaster costs .....	–	9	27	37	49	57	55	54	61	67	72	81
Set discretionary budget authority at cap levels <sup>2</sup> .....	–	*	–27	–51	–64	–75	–81	–86	–92	–99	–106	–111
Reflect Joint Committee enforcement .....	–	–	–71	–96	–105	–109	–109	–109	–109	–109	–109	–38
Related debt service .....	–	*	1	4	14	31	49	66	85	106	129	157
Adjusted baseline deficit .....	1,300	1,127	772	662	749	862	815	793	862	944	1,011	1,193

\* \$500 million or less.

<sup>1</sup> These amounts represent the probability of major disasters requiring Federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. These amounts are included as outlays for convenience.

<sup>2</sup> Includes effects of program integrity cap adjustments.



The Administration believes adjustments to the BBEDCA baseline are needed to better represent the deficit outlook under current policy. Table 27–1 shows estimates of receipts, outlays, and surpluses under the Administration’s adjusted baseline for 2011 through 2022. The estimates are based on the economic assumptions described later in this chapter. They are shown on a unified budget basis; i.e., the off-budget receipts and outlays of the Social Security trust funds and the Postal Service Fund are added to the on-budget receipts and outlays to calculate the unified budget totals. The table also shows the Administration’s estimates by major component. Estimates based on the BBEDCA baseline rules are shown as a memorandum in the table.

### Conceptual Basis for Estimates

Receipts and outlays are divided into two categories that are important for calculating the baseline: those controlled by authorizing legislation (direct spending and receipts) and those controlled through the annual appropriations process (discretionary spending). Different estimating rules apply to each category. There are numerous alternative rules that could be used to develop current services estimates for both categories. The next section discusses some alternatives that might be considered.

*Direct spending and receipts.*—Direct spending includes the major entitlement programs, such as Social Security, Medicare, Medicaid, Federal employee retirement, unemployment compensation, and the Supplemental Nutrition Assistance Program (SNAP). It also includes such programs as deposit insurance and farm price and income supports, where the Government is legally obligated to make payments under certain conditions. Receipts and direct spending are alike in that they involve ongoing activities that generally operate under permanent or long-standing authority, and the underlying statutes generally specify the tax rates or benefit levels that must be collected or paid, and who must pay or who is eligible to receive benefits.

The baseline generally—but not always—assumes that receipts and direct spending programs continue in the future as specified by current law. The budgetary effects of anticipated regulatory and administrative actions that are permissible under current law are also reflected in the estimates. Exceptions to this general rule are described below:

- Consistent with the BBEDCA, expiring excise taxes dedicated to a trust fund are assumed to be extended at current rates. During the projection period of 2012 through 2022, the only taxes affected by this exception are taxes deposited in the Airport and Airway Trust Fund, which expire on February 17, 2012; taxes deposited in the Highway Trust Fund, the Leaking Underground Storage Tank Trust Fund, and the Sport Fish Restoration and Boating Safety Trust Fund, which expire on March 31, 2012; tobacco assessments deposited in the Tobacco Trust Fund, which expire on September 30, 2014; taxes deposited

in the Oil Spill Liability Trust Fund, which expire on December 31, 2017; and taxes deposited in the Patient-Centered Outcomes Research Trust Fund, which expire on September 30, 2019.

- The BBEDCA requires temporary direct spending programs that were enacted before the Balanced Budget Act of 1997 to be extended if their current year outlays exceed \$50 million. For example, the Supplemental Nutrition Assistance Program is scheduled to expire at the end of 2012. The baseline estimates provided here assume continuation of this program through the projection period. For programs enacted since the Balanced Budget Act of 1997, programs that are explicitly temporary in nature expire in the baseline even if their current year outlays exceed the \$50 million threshold. For example, the tobacco buyout payments enacted in the Fair and Equitable Tobacco Reform Act of 2004 are scheduled to expire in 2014 even though current year outlays are estimated to be \$960 million.
- The tax cuts enacted in 2001 and 2003 and extended for two years by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 are assumed to continue permanently in the Administration’s baseline. Estate, gift, and generation-skipping transfer taxes are assumed to be extended at their 2012 parameters (maximum rate of 35 percent and exemption amount of \$5 million) once the estate tax provisions enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 expire on December 31, 2012. The baseline estimates also reflect extension and annual indexation of the alternative minimum tax (AMT) exemption amounts in effect for taxable year 2011, the income thresholds for the 28-percent AMT rate, and the income thresholds for the phase-out of the AMT exemption amounts. AMT relief for nonrefundable personal credits is also permanently extended.
- Medicare payments to physicians are determined under a formula, commonly referred to as the “sustainable growth rate” (SGR). This formula has called for reductions in physician payment rates since 2002, which Congress has consistently overridden for nearly 10 years. Under the SGR formula, physician payment rates would be reduced by almost 28 percent later this year. Rather than the large cuts scheduled under current law, the adjusted baseline includes the costs of expected Medicare physician payments, assuming a zero percent update for physician payment rates.

*Discretionary spending.*—Discretionary programs differ in one important aspect from direct spending programs: the Congress provides spending authority for almost all discretionary programs one year at a time. The spending authority is normally provided in the form of annual appropriations. Absent appropriations of additional funds in the future, discretionary programs would

cease to operate after existing balances were spent. If the baseline were intended strictly to reflect current law, then a baseline would reflect only the expenditure of remaining balances from appropriations laws already enacted. Instead, the BBEDCA baseline provides a mechanical definition to reflect the continuing costs of discretionary programs that is admittedly somewhat arbitrary. Under the BBEDCA, the baseline estimates for discretionary programs in the current year are equal to enacted appropriations.<sup>1</sup> For the budget year and beyond, the spending authority enacted in the current year is adjusted for inflation, using specified inflation rates. The definition attempts to keep discretionary spending roughly level in real terms. The Administration's baseline projection is based on the following modifications to the BBEDCA baseline:

- The adjusted baseline reflects the costs of continuing the annually appropriated portion of the Pell grant program for all eligible students at the maximum award amount of \$4,860 specified in existing appropriations. While the Pell program has traditionally been funded largely through discretionary appropriations, this baseline treatment reflects the reality that the program has effectively operated as an entitlement, in which funding is provided to meet the specified award level for all eligible students.
- The adjusted baseline reflects the discretionary "caps" enacted in the BBEDCA, as amended by the BCA, which limit the amount of discretionary budget authority that can be provided through the annual appropriations process. (Chapter 12 of this volume, "Budget Concepts," provides more information on the effects of the BBEDCA, as amended by the BCA.)
- The BBEDCA allows for adjustments to the caps for program integrity activities. The adjusted baseline reflects funding for the program integrity cap adjustments specified in the BBEDCA, along with the mandatory benefit savings associated with this funding. The BBEDCA also allows for adjustments to the caps for disaster relief spending and for emergency requirements. The adjusted baseline does not reflect funding under the disaster relief cap adjustment beyond what has already been enacted for 2012. (See discussion of additional disaster funding below.) In 2012, there were no appropriations enacted as emergency requirements, so there is no need for a baseline adjustment.
- The BCA also allows for adjustments to the caps for Overseas Contingency Operations (OCO). The adjusted baseline reflects funding for the OCO cap adjustments inflated at the specified inflation rates in the BBEDCA baseline.
- The Administration's baseline uses the same infla-

tion rates for discretionary spending as required by the BBEDCA, despite the fact that this allows for an overcompensation for Federal pay inherent in the BBEDCA definition. At the time the BEA was enacted, it failed to account for the nearly contemporaneous enactment of the Federal Employees Compensation Act of 1991 that shifted the effective date of Federal employee pay raises from October to January. This oversight was not corrected when the baseline definition was reinstated by the BCA amendments to BBEDCA. Correcting for this error would have only a small effect on the discretionary baseline.

*Reclassification of transportation spending.* — To provide an appropriate baseline for assessing the budgetary impact of the Administration's proposal for surface transportation reauthorization, the adjusted baseline reclassifies surface transportation spending to be included in the proposed Transportation Trust Fund (TTF) as mandatory. The National Commission on Fiscal Responsibility and Reform noted that the current hybrid treatment of trust fund spending for surface transportation allows for budget gimmicks to circumvent limits on spending, and recommended that TTF spending be treated as mandatory. This reclassification, which is a zero-sum shift of outlays from the discretionary category to the mandatory category, provides a more transparent presentation of the difference between baseline levels and the TTF proposal, and allows accounting for the proposal under the PAYGO system of budget enforcement.

*Disaster funding.* — An allowance for the possible future costs of major natural or man-made disasters during the remainder of 2012 and in subsequent years is assumed in the Administration's baseline in order to make budget totals more realistic. Baselines would be more meaningful if they did not project forward whatever disaster costs happen to have occurred in the current year. Rather, baselines should replace the projection of actual current-year costs—which might be unusually low or unusually high—with plausible estimates of future costs.

*Joint Committee Enforcement.* — Because 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, the Act stipulates that, absent intervening legislation, enforcement procedures will be invoked to reduce the levels of discretionary and mandatory spending to accomplish deficit reduction. The adjusted baseline reflects these enforcement procedures in the form of an allowance in the amount of the required reductions in spending.

*Economic Assumptions.* — As discussed, baselines can be used as a benchmark against which policy proposals are measured. However, this purpose is achieved only if the policies and the baseline are each constructed under the same set of economic and technical assumptions. For this reason, the Administration uses the same assumptions — for example, the same inflation assumptions — in preparing its current service estimates and its Budget.

<sup>1</sup> When current year appropriations have not been enacted, the BBEDCA requires the baseline estimates for discretionary spending and collections for the current year to be based on the levels provided in the full-year continuing resolution or the annualized level of the part-year continuing resolution.

### Alternative Formulations of Baseline

Throughout much of U.S. history, congressional budget proposals were often compared with either the President's request or the previous year's budget. In the early 1970s, policymakers developed the concept of a baseline to provide a more neutral benchmark for comparisons. While the Congressional Budget Act of 1974 included a requirement that OMB and the Congressional Budget Office (CBO) provide estimates of a current services baseline, the definition of the baseline was very general and specific guidance was not provided.

Subsequent budget laws have specified in increasing detail the requirements for constructing baselines. Current services estimates for direct spending programs and receipts are generally estimated based on laws currently in place and most major programs are assumed to continue even past sunset dates set in law. In the case of receipts, the BBEDCA requires only the extension of trust fund excise taxes, but otherwise bases the estimates on current law. For discretionary programs, these acts instituted a precise definition of the baseline with numerous rules for its construction.

It is clear, however, that a number of baseline definitions could be developed that differ from those presented in this chapter:

- *Extend provisions affecting mandatory programs.* Currently, mandatory programs that have outlays of over \$50 million in current year are generally assumed to continue, unless the programs are explicitly temporary. With the exception of current Medicare physician payment rates, individual provisions of law that affect mandatory programs are assumed to expire as scheduled. If instead, these expiring provisions were extended, baseline outlays would be higher. For example, the cost of extending Qualified Individuals (QI), a component of the Medicaid pro-
- gram that pays Medicare part B premiums for certain low-income seniors and is scheduled to expire at the end of February, 2012, would be \$12.2 billion over 2012-2022.
- *Do not extend any authorizing laws that expire.* If all mandatory programs were assumed to expire as scheduled, deficits for 2013 through 2022 would be \$1,430 billion lower than in the Administration's baseline. (See the section below on major program assumptions for additional information on mandatory program extensions assumed in the estimates.) If excise taxes dedicated to trust funds were assumed to expire as scheduled under current law, the deficit would be \$632 billion higher over the period 2013 through 2022, including debt service. If the tax cuts enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 were assumed to expire, the deficit would be \$2,631 billion lower over the 10-year period. If the AMT relief enacted in that bill were assumed to expire as scheduled, the deficit would be \$2,266 billion lower over the 10 years. If estate, gift, and generation-skipping transfer taxes were assumed to return to the rates and exemptions prior to the 2001 tax cuts rather than continue at 2012 parameters, the deficit would be \$513 billion lower over the next 10 years.
- *Straightline appropriations.* The Administration's baseline assumes that discretionary budgetary resources are constrained by the BBEDCA caps and Joint Committee enforcement. If instead, discretionary budgetary resources were frozen throughout the projection period, total outlays would be \$68 billion higher in 2013 and \$97 billion higher over the period 2013 through 2022, which includes costs from debt service. This calculation does not include any extension of the Recovery Act and other emergency resources, which are not extended in the baseline.

**Table 27-2. ALTERNATIVE BASELINE ASSUMPTIONS**  
(In billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Totals	
												2013-2017	2013-2022
Adjusted baseline deficit .....	1,127	772	662	749	862	815	793	862	944	1,011	1,193	3,860	8,663
Alternative assumptions ("+" represents deficit increase): <sup>1</sup>													
Do not extend any authorizing laws:													
Mandatory spending .....	-21	-106	-109	-117	-129	-141	-147	-156	-165	-175	-185	-602	-1,430
Trust fund excise taxes .....	27	44	46	50	56	61	66	70	74	79	84	258	632
AMT relief .....	-19	-121	-117	-138	-166	-197	-229	-264	-302	-343	-389	-738	-2,266
Estate, gift, and generation-skipping transfer tax relief .....	-2	-5	-32	-37	-43	-50	-56	-62	-69	-76	-83	-167	-513
2001 and 2003 tax cuts .....	-	-120	-186	-208	-237	-263	-283	-302	-322	-344	-367	-1,014	-2,631
Straightline appropriations .....	-	68	87	78	66	45	21	-7	-36	-67	-157	343	97
Account for inflation and population growth .....	-	87	146	187	225	258	290	325	362	402	389	904	2,671
Do not extend any appropriations .....	-	-619	-968	-1,115	-1,233	-1,344	-1,441	-1,537	-1,636	-1,737	-1,904	-5,279	-13,534

<sup>1</sup> Includes costs or savings from debt service.



This alternative formulation of the baseline appears more costly than the Administration's adjusted baseline, because the adjusted baseline reflects the reductions for Joint Committee enforcement.

- *Account for inflation and population growth.* While the baseline assumes that discretionary budgetary resources are constrained by the BBEDCA caps and Joint Committee enforcement, an alternative would be to assume growth with inflation and population, so that real resources per person (or the real cost per person of funding these programs) remains constant over time. Such an alternative would increase total outlays by \$87 billion in 2013 and \$2,671 billion over the period 2013-2022 relative to the baseline, including costs from debt service.
- *Do not extend any appropriations.* The current treatment of expiring provisions of mandatory programs is inconsistent with the treatment of discretionary spending. All discretionary spending continues whether there is authorization for the program or not and whether funds have already been provided or not. In nearly all cases, funds for discretionary programs have not been provided in advance for years beyond the current year. If rules consistent with the treatment of other expiring provisions were applied to discretionary spending, no new budgetary resources would be provided. Thus, under a strict "current law" approach, the only discretionary outlays that would be included in the baseline would be the lagged spending from budgetary resources

already provided in the current year or past years. If this rule were followed, outlays in 2013 would be reduced by \$619 billion relative to the Administration's baseline, which includes savings from debt service. However, clearly this would provide an unrealistic estimate of future spending and the Government's future fiscal position.

Table 27–2 provides estimates, including effects on debt service, for a variety of changes in baseline definitions that could be considered.

### Economic Assumptions

The estimates for the baseline are prepared using the same economic assumptions as the President's Budget. These assumptions are based on enactment of the President's Budget proposals. The economy and the budget interact. Changes in economic conditions significantly alter the estimates of tax receipts, unemployment benefits, entitlement payments that are automatically adjusted for changes in cost-of-living (COLAs), income support programs for low-income individuals, and interest on the Federal debt. In turn, Government tax and spending policies influence prices, economic growth, consumption, savings, and investment. Because of these interactions, it would be reasonable, from an economic perspective, to assume different economic paths for the baseline projection and the President's Budget. However, this would diminish the value of the baseline estimates as a benchmark for measuring proposed policy changes, because it would

**Table 27–3. SUMMARY OF ECONOMIC ASSUMPTIONS**

(Fiscal years; dollar amounts in billions)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Gross Domestic Product (GDP):												
Levels, dollar amounts in billions:												
Current dollars .....	14,959	15,602	16,335	17,156	18,178	19,261	20,369	21,444	22,421	23,409	24,427	25,488
Real, chained (2005) dollars .....	13,267	13,587	13,993	14,463	15,055	15,671	16,279	16,836	17,291	17,734	18,178	18,632
Percent change, year over year:												
Current dollars .....	4.2	4.3	4.7	5.0	6.0	6.0	5.7	5.3	4.6	4.4	4.3	4.3
Real, chained (2005) dollars .....	2.2	2.4	3.0	3.4	4.1	4.1	3.9	3.4	2.7	2.6	2.5	2.5
Inflation measures (percent change, year over year):												
GDP chained price index .....	2.0	1.9	1.7	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Consumer price index (all urban) .....	2.6	2.6	1.9	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Unemployment rate, civilian (percent) .....	9.2	9.0	8.7	8.3	7.5	6.7	6.0	5.5	5.4	5.4	5.4	5.4
Interest rates (percent):												
91-day Treasury bills .....	0.1	0.1	0.1	1.0	2.4	3.7	4.0	4.1	4.1	4.1	4.1	4.1
10-year Treasury notes .....	3.0	2.6	3.3	3.8	4.3	4.6	4.9	5.1	5.1	5.1	5.2	5.3
MEMORANDUM:												
Related program assumptions:												
Automatic benefit increases (percent):												
Social security and veterans pensions .....	0.0	3.6	1.9	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Federal employee retirement .....	0.0	3.6	1.9	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Food stamps <sup>1</sup> .....	0.0	0.0	0.0	-3.3	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Insured unemployment rate .....	3.0	3.0	3.0	2.9	2.7	2.5	2.3	2.1	2.1	2.0	2.0	2.1

<sup>1</sup> Under current law, enhanced Thrifty Food Plan (TFP) benefits provided by the Recovery Act (P.L. 111–5) are set to expire on October 31, 2013. Benefits will return to regular levels and will be updated annually based on the TFP from the preceding June.

then be difficult to separate the effects of proposed policy changes from the effects of different economic assumptions. By using the same economic assumptions for the baseline and the President's Budget, this potential source of confusion is eliminated. The economic assumptions underlying both the Budget and the Administration's baseline are summarized in Table 27-3. The economic outlook underlying these assumptions is discussed in greater detail in Chapter 2 of this volume.

### Major Programmatic Assumptions

A number of programmatic assumptions must be made in order to calculate the baseline estimates. These include assumptions about annual cost-of-living adjustments in the indexed programs and the number of beneficiaries who will receive payments from the major benefit programs. Assumptions about various automatic cost-of-living-adjustments are shown in Table 27-3, and assumptions about baseline caseload projections for the major benefit programs are shown in Table 27-4. These assumptions affect baseline estimates of direct spending for each of these programs, and they also affect estimates of the discretionary baseline for a limited number of programs. For Pell Grants and the administrative expenses for Medicare, Railroad Retirement, and unemployment insurance, the discretionary baseline is increased (or decreased) for changes in the number of beneficiaries in addition to the adjustments for inflation described earlier.

It is also necessary to make assumptions about the continuation of expiring programs and provisions. As explained above, in the baseline estimates provided here, expiring excise taxes dedicated to a trust fund are extended at current rates. Certain tax reductions enacted in 2001 and 2003 are assumed to be permanent for purposes of calculating revenue estimates. Medicare payments to physicians are assumed to be maintained at their current payment rates. In general, mandatory programs with spending of at least \$50 million in the current year are also assumed to continue, unless the programs are explicitly temporary in nature. For example, under the Fair and Equitable Tobacco Reform Act of 2004, tobacco buyout payments will expire in 2014, even though current year outlays are \$960 million. Table 27-5 provides a listing of mandatory programs and taxes assumed to continue in the baseline after their expiration. All discretionary programs with enacted non-emergency appropriations in the current year and the 2012 costs for overseas contingency operations in Iraq and Afghanistan and other recurring international activities are assumed to continue.

Many other important assumptions must be made in order to calculate the baseline estimates. These include assumptions about the timing and substance of regulations that will be issued over the projection period, the use of administrative discretion provided under current law, and other assumptions about the way programs operate. Table 27-5 lists many of these assumptions and their effects on the baseline estimates. It is not intended to be an exhaustive listing; the variety and complexity of Government

programs are too great to provide a complete list. Instead, some of the more important assumptions are shown.

### Current Services Receipts, Outlays, and Budget Authority

*Receipts.*—Table 27-6 shows the Administration's baseline receipts by major source. Total receipts are projected to increase by \$292 billion from 2012 to 2013, by \$829 billion from 2013 to 2017, and by \$1,144 billion from 2017 to 2022. These increases are largely due to assumed increases in incomes resulting from both real economic growth and inflation.

Individual income taxes are estimated to increase by \$115 billion from 2012 to 2013, by \$472 billion from 2013 to 2017, and by \$635 billion from 2017 to 2022 under baseline assumptions. This average annual rate of growth of 7.1 percent between 2013 and 2022 is primarily the effect of increased collections resulting from rising aggregate personal incomes.

Corporation income taxes are estimated to increase by \$84 billion from 2012 to 2013, by \$79 billion from 2013 to 2017, and by \$57 billion from 2017 to 2022 under baseline assumptions. This average annual rate of growth of 3.6 percent between 2013 and 2022 is primarily attributable to growth in corporate profits.

Social insurance and retirement receipts are estimated to increase by \$86 billion from 2012 to 2013, by an additional \$237 billion between 2013 and 2017, and by an additional \$353 billion between 2017 and 2022. These baseline estimates reflect the expiration of the payroll tax holiday for calendar year 2011 and the first two months of calendar year 2012, increases in total wages and salaries paid, and scheduled increases in the Social Security taxable earnings base from \$110,100 in 2012 to \$131,400 in 2017 and to \$165,600 in 2022, as shown in Table 27-7.

Other baseline receipts (excise taxes, estate and gift taxes, customs duties and miscellaneous receipts) are projected to increase by \$7 billion between 2012 and 2013, and to rise to \$375 billion by 2022.

*Outlays.*—Outlays in the Administration's baseline are estimated to decrease from \$3,717 billion in 2012 to \$3,655 billion in 2013, a 1.7 percent decrease. Between 2012 and 2017, the baseline outlays are projected to increase at an average annual rate of 4.0 percent and between 2012 and 2022, the baseline outlays are projected to increase at an average annual rate of 5.0 percent. Table 27-8 shows the growth from 2012 to 2013 and average annual growth over the five-year and ten-year periods for certain discretionary and major mandatory programs.

Discretionary budget authority is assumed to be capped at the levels specified in the BCA, including the limited upward adjustments specified above and reduced for estimated Joint Committee enforcement. Outlays for discretionary programs decrease by 8.1 percent from \$1,319 billion in 2012 to \$1,212 billion in 2013, mostly due to reductions in discretionary budget authority in the 2011 and 2012 appropriations bills, including for OCO, as well as the effects of Joint Committee enforcement, and the winding down of Recovery Act spending.



Discretionary outlays decrease at an average annual rate of 2.4 percent from 2012 to 2017 and increase at an average annual rate of 0.3 percent from 2012 to 2022.

Entitlement and other mandatory programs are estimated to increase by 0.9 percent from \$2,175 billion in 2012 to \$2,195 billion in 2013. Several programs show notable outlay growth between 2012 and 2013: outlays for farm programs increase from \$12 billion in 2012 to \$19 billion in 2013 (60.5 percent) due to a timing shift in crop insurance specified in the 2008 Farm Bill; outlays for veterans programs increase by 12.6 percent; Medicaid and Medicare outlays increase by 10.8 percent and 10.5 percent, respectively; Federal employee retirement and disability outlays increase by 7.9 percent; and Social Security outlays increase by 6.1 percent. These increases are offset by decreased spending on unemployment compensation (34.4 percent) and other mandatory programs (66.4 percent). The outlay reduction from 2012 to 2013 for other mandatory programs is largely due to significant reductions in GSE preferred stock purchases, the revival of FDIC Deposit Insurance Fund assessments following several years of prepaid Fund premiums, net upward reestimates for Federal credit programs to be recorded in 2012 of roughly \$14 billion, which include upward reestimates for the Troubled Asset Relief Program and Federal Housing Administration loan guarantees, and assumed reductions in mandatory programs in 2013 due to Joint Committee enforcement.

Mandatory outlays generally increase after 2013, reaching \$3,763 billion in 2022, which is due mostly to increased spending on Medicare, Medicaid, and other health care programs, followed by a more modest increase in Social Security. Medicaid outlays grow from \$255 billion in 2012 to \$589 billion in 2022, an average annual rate of 8.7 percent, driven by increases in

health care costs and projected increases in the number of Medicaid beneficiaries of 4.3 percent annually over the same period. Veterans programs grow at an average annual rate of 7.5 percent, which is partly due to a thirteenth monthly benefit payment scheduled in 2022, with a projected average annual growth in beneficiaries of veterans compensation of 3.7 percent. Medicare outlays grow at an average annual rate of 7.3 percent, with projected growth in Medicare beneficiaries of 3.0 percent annually over the same period. Social Security (OASDI) outlays grow at an average annual rate of 5.8 percent, with the same 3.0 percent average annual growth of beneficiaries as for Medicare. Over the same time period, outlays for unemployment compensation decline at an average annual rate of 4.2 percent. Net interest payments are projected to increase by 10.0 percent from \$223 billion in 2012 to \$246 billion in 2013 due to increased interest rates, and are projected to increase to \$915 billion in 2022, an average annual rate of 15.2 percent, due to increases in the amount of debt outstanding and to the average interest rate on the debt.

Tables 27–9 and 27–10 show the Administration’s baseline outlays by function and by agency, respectively. A more detailed presentation of outlays (by function, category, subfunction, and program) is available as Table 27–14 online and on the CD-ROM enclosed with the printed version of this *Analytical Perspectives* volume.

*Budget authority.*—Tables 27–11 and 27–12 show estimates of budget authority in the Administration’s baseline by function and by agency, respectively. A more detailed presentation of budget authority with program level estimates is also part of Table 27–14 on the Internet and on the CD-ROM enclosed with the printed version of this *Analytical Perspectives* volume.

**Table 27–4. BASELINE BENEFICIARY PROJECTIONS FOR MAJOR BENEFIT PROGRAMS**  
(Annual average, in thousands)

	Actual 2011	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Farmers receiving Federal payments .....	1,368	1,361	1,354	1,347	1,340	1,333	1,326	1,319	1,312	1,305	1,298	1,292
Federal direct student loans .....	11,478	13,380	12,100	12,569	13,002	13,450	13,916	14,400	14,902	15,424	15,966	16,529
Federal Pell Grants .....	9,703	9,607	9,748	9,919	10,089	10,284	10,463	10,596	10,735	10,874	11,021	11,163
Medicaid/Children's Health Insurance Program .....	61,159	62,491	62,892	77,851	84,764	87,832	86,293	85,981	86,373	86,899	87,386	87,873
Medicare-eligible military retiree health benefits .....	2,089	2,144	2,189	2,224	2,251	2,276	2,301	2,321	2,354	2,387	2,421	2,455
Medicare: <sup>1</sup>												
Hospital insurance .....	48,085	49,844	51,649	53,338	54,969	56,579	58,212	59,888	61,616	63,401	65,214	67,058
Supplementary medical insurance:												
Part B .....	44,635	46,190	47,809	49,294	50,734	52,155	53,594	55,073	56,603	58,235	59,870	61,523
Part D .....	35,419	37,060	38,367	39,452	40,523	41,603	42,738	43,884	45,049	46,529	47,901	49,221
Prescription Drug Plans and Medicare Advantage:												
Prescription Drug Plans .....	29,126	32,142	35,220	37,200	38,895	40,638	41,925	43,047	44,188	45,643	46,991	48,285
Retiree Drug Subsidy .....	6,293	4,918	3,147	2,251	1,629	965	813	837	861	885	911	936
Managed Care Enrollment <sup>2</sup> .....	12,133	12,906	13,021	12,353	11,133	9,787	9,009	8,822	9,060	9,447	9,860	10,234
Railroad retirement .....	544	541	538	535	532	529	525	521	516	509	502	494
Federal civil service retirement .....	2,530	2,557	2,582	2,606	2,630	2,653	2,675	2,697	2,718	2,739	2,759	2,779
Military retirement .....	2,228	2,242	2,272	2,280	2,286	2,293	2,299	2,305	2,312	2,320	2,328	2,336
Unemployment insurance .....	9,913	10,238	10,372	10,385	10,027	9,538	9,061	8,681	8,514	8,463	8,466	8,485
Supplemental Nutrition Assistance Program (formerly Food Stamps) .....	44,712	47,145	46,908	44,534	42,888	40,907	38,584	36,378	34,432	33,062	32,257	31,665
Child nutrition .....	35,143	35,555	36,050	36,416	36,759	37,107	37,460	37,819	38,182	38,551	38,926	39,306
Foster care, Adoption Assistance and Guardianship Assistance .....	616	623	638	655	680	700	725	752	780	808	837	865
Supplemental security income (SSI):												
Aged .....	1,105	1,107	1,114	1,126	1,142	1,161	1,183	1,208	1,236	1,268	1,301	1,337
Blind/disabled .....	6,652	6,866	7,075	7,250	7,362	7,414	7,435	7,446	7,465	7,508	7,541	7,584
Total, SSI .....	7,757	7,973	8,189	8,376	8,504	8,575	8,618	8,654	8,701	8,776	8,842	8,921
Child care and development fund <sup>3</sup> .....	2,601	2,309	2,302	2,339	2,318	2,248	2,191	2,134	2,080	2,027	1,975	1,892
Social security (OASDI):												
Old age and survivor insurance .....	44,094	45,304	46,656	48,117	49,636	51,218	52,844	54,498	56,187	57,905	59,577	61,131
Disability insurance .....	10,298	10,733	11,064	11,285	11,490	11,653	11,770	11,845	11,898	11,952	12,072	12,216
Total, OASDI .....	54,392	56,037	57,720	59,402	61,126	62,871	64,614	66,343	68,085	69,857	71,649	73,347
Veterans compensation:												
Veterans .....	3,284	3,452	3,626	3,796	3,960	4,119	4,274	4,424	4,569	4,711	4,848	4,982
Survivors (non-veterans) .....	342	348	357	366	377	388	401	414	429	444	459	476
Total, Veterans compensation .....	3,626	3,801	3,983	4,162	4,336	4,507	4,674	4,838	4,998	5,155	5,308	5,457
Veterans pensions:												
Veterans .....	314	314	314	314	315	315	315	315	316	316	316	316
Survivors (non-veterans) .....	203	204	206	208	210	212	214	216	218	220	222	224
Total, Veterans pensions .....	517	518	520	522	524	526	529	531	533	535	538	540

<sup>1</sup> Due to data lags, 2011 figures are estimates.

<sup>2</sup> Enrollment figures include only beneficiaries who receive both Part A and Part B services through managed care.

<sup>3</sup> Assumes CCDF reauthorization proposed in President's Budget and includes children served through the CCDF (including TANF transfers) and through funds spent directly on child care in the Social Services Block Grant and TANF programs.



**Table 27–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued**  
(Outlays in millions of dollars)

	Estimate										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Homeland Security:</b>											
National Flood Insurance Fund <sup>2</sup> .....	798	-319	-194	-50	-4	-50	-99	-106	-112	-118	-124
<b>Interior:</b>											
Sport Fish Restoration and Boating Trust Fund <sup>3</sup> .....	480	500	500	500	508	508	508	508	508	508	508
<b>Labor:</b>											
Trade Adjustment Assistance for Workers .....				62	527	821	905	949	995	1,056	1,120
<b>Veterans Affairs:</b>											
Veterans Compensation Cost of Living Adjustment .....		772	1,827	3,041	4,368	5,861	7,483	9,217	11,079	13,063	15,154
<b>Revenues: <sup>4</sup></b>											
Airport and Airway Trust Fund Taxes .....	7,363	11,500	11,923	12,477	13,065	13,640	14,154	14,545	14,921	15,294	15,673
Highway Trust Fund Taxes .....	19,357	31,759	32,639	33,482	34,319	35,145	35,857	36,437	37,092	37,789	38,658
Leaking Underground Storage Tank (LUST) Trust Fund Taxes .....	91	182	184	188	190	192	195	197	199	201	205
Oil Spill Liability Trust Fund Taxes .....							438	585	585	583	581
Sport Fish Restoration and Boating Safety Trust Fund Taxes .....	283	468	496	523	553	582	610	640	671	702	733
Tobacco Assessment .....					960	960	960	960	960	960	960
Fee on Insured and Self Insured Plans .....										580	616
<b>Programs and Provisions Not Extended in the Adjusted Baseline</b>											
<b>Spending:</b>											
<b>Agriculture:</b>											
Animal and Plant Health Inspection Service:											
National Clean Plant Network (2008 Farm Bill, Section 10202) ..		2	5	5	5	5	5	5	5	5	5
Departmental Management/Office of Advocacy and Outreach:											
Outreach and Technical Assistance for Socially Disadvantaged Farmers and Ranchers: .....		20	20	20	20	20	20	20	20	20	20
Sec. 9002 Biobased Markets Program .....		2	2	2	2	2	2	2	2	2	2
Sec. 9006 Biodiesel Fuel Education Program .....		1	1	1	1	1	1	1	1	1	1
Farm Service Agency (FSA) Programs:											
Agricultural Disaster Relief Fund <sup>5</sup> .....			1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Biomass Crop Assistance Program (BCAP) .....		196	196	196	196	196	196	196	196	196	196
Tobacco buyout payments .....				960	960	960	960	960	960	960	960
Voluntary Public Access .....		12	17	17	17	17	17	17	17	17	17
Milk Income Loss Contract Program .....			10	8	8	5	3	3	3	3	3
National Institute of Food and Agriculture (Formerly CSREES, Cooperative State Research, Education, and Extension Service):											
Biomass research and development .....		2	16	30	40	40	40	40	40	40	40
Healthy Urban Food Enterprise Development Center <sup>5</sup> .....	*	1	1	1	1	1	1	1	1	1	1
Beginning Farmer and Rancher Program .....		2	10	19	19	19	19	19	19	19	19
Organic Research Initiative .....		1	8	15	20	20	20	20	20	20	20
Specialty Crop Research Initiative .....		3	20	38	50	50	50	50	50	50	50
Natural Resources Conservation Service (NRCS):											
Healthy Forests Reserve Program .....		1	5	7	7	8	9	10	10	10	10
Agricultural Marketing Service:											
Farmers Market Promotion Program (2008 Farm Bill, Sec. 10106) .....		10	10	10	10	10	10	10	10	10	10
Specialty Crop Block Grants Program (2008 Farm Bill, Sec. 10109) .....		55	55	55	55	55	55	55	55	55	55
Agricultural Management Assistance Organic Certification Cost Share Program .....		2	2	2	2	2	2	2	2	2	2
Wool Research, Development, and Promotion Trust Fund Program .....					3	3	3	3	3	3	3
Rural Business-Cooperative Service:											
Rural Energy for America Program .....		2	38	60	65	68	70	70	70	70	70

**Table 27–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued**  
(Outlays in millions of dollars)

	Estimate										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bioenergy Program for Advanced Biofuels .....		105	105	105	105	105	105	105	105	105	105
Value Added Agricultural Market Development Program .....		2	10	13	14	14	15	15	15	15	15
Repowering Assistance Program .....		26	35	35	35	35	35	35	35	35	35
Biorefinery Assistance Program .....		12	61	123	184	228	245	245	245	245	245
Rural Microentrepreneur Assistance Program .....			1	2	2	3	3	3	3	3	3
<b>Trade Assistance Programs:</b>											
Foreign Market Development (Cooperator) Program .....		18	34	35	35	35	35	35	35	35	35
Technical Assistance Specialty Crops .....			4	8	9	9	9	9	9	9	9
Emerging Markets .....		1	6	8	10	10	10	10	10	10	10
Trade Adjustment Assistance for Farmers <sup>5</sup> .....	10	10	10	10	10	10	10	10	10	10	10
<b>Forest Service (FS):</b>											
Forest County Safety Net Payments (Departments of Agriculture and the Interior) <sup>5</sup> .....		278	300	270	243	219	197	177	159	143	129
<b>Risk Management Agency</b>											
Information Management <sup>5</sup> .....	9	9	9	9	9	9	9	9	9	9	9
<b>Health and Human Services:</b>											
TANF Supplemental Grants <sup>5</sup> .....	344	319	319	319	319	319	319	319	319	319	319
<b>Medicaid:</b>											
Transitional Medical Assistance <sup>6</sup> .....	155	640	280	70	80	80	80	90	90	90	100
Medicare Low-Income Premium Assistance (Qualified Individuals) <sup>6</sup> .....	215	695	785	875	975	1,085	1,210	1,345	1,495	1,660	1,840
<b>Interior:</b>											
Oil and Gas Permit Processing Improvement Fund <sup>7</sup> .....					17	16	15	14	13	12	11
Payments in Lieu of Taxes <sup>8</sup> .....		398	411	419	426	434	442	449	458	466	474
<b>Labor:</b>											
Alternative Trade Adjustment Assistance .....			8	26	39	40	37	36	36	37	39
<b>Social Security:</b>											
SSI Extension for Elderly and Disabled Refugees Act (SSI) .....		41	43								
<b>Veterans Affairs:</b>											
<b>Veterans Compensation:</b>											
National Directory for New Hires (NDNH) Data Matches <sup>5</sup> .....	*	2	1	*	-1	-2	-3	-4	-5	-5	-6
<b>Veterans Pension:</b>											
Income Verification Match .....						-35	-35	-36	-37	-37	-38
<b>Veterans Housing:</b>											
Increase in Maximum Loan Guaranty Amount <sup>5</sup> .....	*	*	*	1	1	5	6	6	7	7	8
Guaranteed Loan Funding Fees Extension .....						-389	-401	-412	-418	-424	-436
<b>Environmental Protection Agency:</b>											
Pesticide maintenance fee .....		-22	-22	-22	-22	-22	-22	-22	-22	-22	-22
Pesticide registration service fee .....		-6	-11	-15	-15	-15	-15	-15	-15	-15	-15
<b>OTHER IMPORTANT PROGRAM ASSUMPTIONS</b>											
<b>Health and Human Services:</b>											
<b>Children's Health Insurance Program (Title XXI):</b>											
State allotments .....	9,300	9,600	10,500	11,300	16,100	9,100	6,400	5,800	5,700	5,700	5,700
Contingency fund .....	125	200	200	200							
Performance bonus .....	369	380	425								
Child health quality activities .....	110	47	40								
<b>Medicaid:</b>											
Financial management recoveries .....	-277	-297	-359	-395	-427	-457	-487	-520	-554	-594	-633
Vaccines for Children, Total program costs .....	4,009	4,271	4,358	4,518	4,701	4,757	4,940	5,099	5,305	5,517	5,740
Institutional long-term care .....	37,347	38,194	39,599	41,114	42,647	44,795	47,499	50,310	53,420	56,890	60,793
Home and community based institutional alternatives .....	33,473	36,495	40,075	43,209	47,349	51,758	56,706	61,853	67,527	73,740	80,479















**Table 27–5. IMPACT OF REGULATIONS, EXPIRING AUTHORIZATIONS, AND OTHER ASSUMPTIONS IN THE BASELINE—Continued**  
(Outlays in millions of dollars)

	Estimate										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
OASDI .....	-40	-162	-221	-222	-223	-218	-210	-199	-188	-177	-168
SSI .....	-23	-228	-480	-726	1,046	-1,198	-1,290	-1,571	-1,739	-1,889	-2,172
Collection of Overpayments:											
OASI .....	-1,200	-1,280	-1,363	-1,448	-1,539	-1,539	-1,539	-1,539	-1,539	-1,539	-1,539
DI .....	-959	-1,032	-1,099	-1,161	-1,219	-1,219	-1,219	-1,219	-1,219	-1,219	-1,219
SSI .....	-1,124	-1,208	-1,290	-1,371	-1,475	-1,475	-1,475	-1,475	-1,475	-1,475	-1,475
Debts Written of as Uncollectible (no effect on outlays):											
OASI .....	181	194	206	219	233	233	233	233	233	233	233
DI .....	527	567	604	638	670	670	670	670	670	670	670
SSI (Federal) .....	365	392	419	446	479	479	479	479	479	479	479
Payments to States for Vocational Rehabilitation (excludes ticket payments):											
OASDI .....	72	78	85	92	99	104	108	113	119	125	129
SSI .....	47	51	55	58	64	67	70	74	76	79	82
Research and Demonstration Projects:											
OASDI .....	30	18	.....	.....	.....	.....	.....	.....	.....	.....	.....
SSI .....	34	45	41	42	43	43	44	44	45	46	47
State Supplementation Benefit Payments (SSI):											
Payments from States .....	-3,497	-3,645	-3,818	-3,977	-4,120	-4,245	-4,360	-4,475	-4,602	-4,742	-4,464
Benefit Payments .....	3,245	3,630	3,805	3,965	4,400	4,240	4,050	4,465	4,590	4,730	5,215
Fees for Federal Administration of SSI State Supplemental Benefit Payments:											
Treasury Share .....	-130	-139	-139	-141	-154	-143	-131	-144	-145	-147	-160
SSA Share .....	-154	-170	-176	-185	-209	-201	-192	-218	-227	-237	-268
Performance of Non-Disability SSI Redeterminations .....	442	-1,073	-414	-106	-109	-77	-42	-36	-12	6	28

\* \$500,000 or less.

<sup>1</sup> Includes temporary benefit increase from the American Recovery and Reinvestment Act of 2009 (P.L. 111–5).

<sup>2</sup> Amounts reflect the full baseline level of the program, assuming reauthorization before May 31, 2012. Some payments would continue under current law if the authorization expired.

<sup>3</sup> Reauthorization is pending before Congress.

<sup>4</sup> Trust fund excise tax revenues are shown as governmental receipts; a positive number indicates an increase in receipts.

<sup>5</sup> This program or provision has recently expired.

<sup>6</sup> Current law expires February 29, 2012.

<sup>7</sup> The Budget proposes that the authority for this appropriation be rescinded for 2014 and 2015 and thus not continued beyond the scheduled expiration date.

<sup>8</sup> The Budget includes a proposed one-year extension of PILT payments in 2013 at the current authorized payment formula.

<sup>9</sup> Reflects savings net of premiums.

<sup>10</sup> Baseline estimates reflect costs absent the demonstration; demonstration estimate reflects costs of the demonstration. The differences represent the estimated net impact of the demonstration. Any demonstrations are implicitly assumed in the current services baseline. The demonstrations listed are only those that were approved and announced by release of the FY 2013 President’s Budget. The estimates listed do not account for interactions.

<sup>11</sup> Costs of this demonstration are offset annually by a reduction to inpatient hospital prospective payment rates.

<sup>12</sup> OACT estimates that advance payment ACOs are expected to generate \$60M in savings for the Medicare Shared Savings Program (MSSP) in the first three performance periods, reflected in the baseline and in the MSSP regulatory impact analysis.

<sup>13</sup> An extension request is under review. Demonstration on temporary extension through February 29, 2012.

<sup>14</sup> A new AHCCCS demonstration was approved on October 22, 2011.

<sup>15</sup> The AR FP demo expires February 29, 2012 and an extension is under review.

<sup>16</sup> Demonstration will expend accumulated budget neutrality savings from prior years.

<sup>17</sup> This demo expires March 31, 2012 and an extension is under review.

<sup>18</sup> In November 2011, this demonstration was approved for a temporary extension through December 31, 2012.

<sup>19</sup> The demonstration is on temporary extension through March 31, 2012.

<sup>20</sup> An extension request is under review. The demonstration is on temporary extension through March 31, 2012.

<sup>21</sup> The demonstration includes only state plan eligible beneficiaries and has been provided no expenditure authority. This demonstration is presumed budget neutral.

<sup>22</sup> Demonstration extended through December 31, 2012.

<sup>23</sup> The Children’s Health Insurance Program Reauthorization Act (CHIPRA) (P.L. 111–3) authorized coverage for childless adults through December 31, 2009 and parents through September 31, 2011. States may extend coverage for parents of low-income children through September 31, 2013, subject to terms and conditions outlined in section 2111 (b) of the Social Security Act.

<sup>24</sup> The estimates are based on the Federal share of the State’s current approved demonstration budget.

<sup>25</sup> An extension request is under review. The demonstration is on temporary extension through January 31, 2012.

**Table 27–6. RECEIPTS BY SOURCE IN THE ADJUSTED BASELINE**  
(In billions of dollars)

	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Individual income taxes .....	1,091.5	1,178.8	1,293.7	1,388.6	1,505.5	1,632.6	1,765.9	1,893.8	2,015.2	2,139.0	2,267.4	2,400.9
Corporation income taxes .....	181.1	281.2	364.9	458.6	407.4	381.1	443.6	456.9	471.7	469.8	487.7	500.5
Social insurance and retirement receipts .....	818.8	903.8	989.9	1,038.8	1,093.3	1,165.1	1,226.4	1,296.4	1,358.9	1,421.4	1,500.8	1,578.9
On-budget .....	(253.0)	(268.5)	(283.1)	(296.7)	(311.3)	(330.7)	(343.8)	(359.6)	(371.6)	(387.0)	(407.3)	(428.5)
Off-budget .....	(565.8)	(635.3)	(706.8)	(742.1)	(782.1)	(834.4)	(882.6)	(936.8)	(987.3)	(1,034.4)	(1,093.5)	(1,150.5)
Excise taxes .....	72.4	79.6	87.1	96.9	102.2	104.3	109.7	117.9	133.4	139.8	147.4	156.8
Estate and gift taxes .....	7.4	11.4	11.8	12.8	13.5	14.4	15.3	16.3	17.3	18.3	19.4	20.4
Customs duties .....	29.5	30.8	33.7	35.9	37.9	39.5	41.4	43.7	46.0	48.1	50.2	52.4
Miscellaneous receipts .....	102.8	104.9	101.3	113.1	112.8	107.0	108.9	114.2	121.8	130.4	137.4	145.4
<b>Total, receipts .....</b>	<b>2,303.5</b>	<b>2,590.5</b>	<b>2,882.3</b>	<b>3,144.7</b>	<b>3,272.5</b>	<b>3,444.0</b>	<b>3,711.1</b>	<b>3,939.1</b>	<b>4,164.3</b>	<b>4,366.8</b>	<b>4,610.3</b>	<b>4,855.3</b>
On-budget .....	(1,737.7)	(1,955.2)	(2,175.6)	(2,402.6)	(2,490.5)	(2,609.6)	(2,828.6)	(3,002.3)	(3,177.0)	(3,332.4)	(3,516.8)	(3,704.8)
Off-budget .....	(565.8)	(635.3)	(706.8)	(742.1)	(782.1)	(834.4)	(882.6)	(936.8)	(987.3)	(1,034.4)	(1,093.5)	(1,150.5)



**Table 27–8. CHANGE IN OUTLAYS BY CATEGORY IN THE ADJUSTED BASELINE**  
(Dollar amounts in billions)

	2012	2013	2017	2022	Change 2012 to 2013		Change 2012 to 2017		Change 2012 to 2022	
					Amount	Percent	Amount	Annual average rate	Amount	Annual average rate
<b>Outlays:</b>										
Discretionary:										
Defense .....	709	667	651	766	-42	-6.0%	-58	-1.7%	57	0.8%
Non-defense .....	610	545	517	594	-64	-10.6%	-93	-3.3%	-15	-0.3%
Subtotal, discretionary .....	1,319	1,212	1,168	1,360	-107	-8.1%	-151	-2.4%	41	0.3%
Mandatory:										
Farm programs .....	12	19	16	17	7	60.5%	4	5.7%	5	3.4%
Medicaid .....	255	283	430	589	28	10.8%	174	11.0%	334	8.7%
Other health care .....	42	43	134	185	1	1.5%	92	26.2%	143	16.0%
Medicare .....	478	528	660	967	50	10.5%	182	6.7%	489	7.3%
Federal employee retirement and disability .....	122	132	151	184	10	7.9%	30	4.4%	62	4.2%
Unemployment compensation .....	84	55	48	53	-29	-34.3%	-36	-10.5%	-31	-4.5%
Other income security programs .....	280	280	276	298	*	0.1%	-4	-0.3%	18	0.6%
Social Security .....	773	820	1,027	1,361	47	6.1%	254	5.8%	588	5.8%
Veterans programs .....	71	79	102	146	9	12.6%	32	7.7%	75	7.5%
Other mandatory programs .....	155	52	38	88	-103	-66.4%	-117	-24.5%	-67	-5.5%
Undistributed offsetting receipts .....	-96	-95	-102	-125	*	-0.5%	-7	1.3%	-29	2.7%
Subtotal, mandatory .....	2,175	2,195	2,779	3,763	20	0.9%	604	5.0%	1,588	5.6%
Disaster costs <sup>1</sup> .....	*	2	9	10	1	1160.0%	9	134.2%	10	55.0%
Net interest .....	223	246	570	915	22	10.0%	347	20.6%	692	15.2%
<b>Total, outlays .....</b>	<b>3,717</b>	<b>3,655</b>	<b>4,526</b>	<b>6,048</b>	<b>-63</b>	<b>-1.7%</b>	<b>809</b>	<b>4.0%</b>	<b>2,331</b>	<b>5.0%</b>

\* \$500 million or less.

<sup>1</sup> These amounts represent the statistical probability of a major disaster requiring federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. These amounts are included as outlays for convenience.

**Table 27–9. OUTLAYS BY FUNCTION IN THE ADJUSTED BASELINE**  
(In billions of dollars)

Function	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>National Defense:</b>												
Department of Defense—Military .....	678.1	688.3	648.9	609.9	609.8	618.8	634.2	649.6	664.5	680.3	696.5	745.6
Other .....	27.6	28.0	26.6	24.6	24.3	24.3	24.7	25.1	25.6	26.1	26.6	28.8
<b>Total, National Defense .....</b>	<b>705.6</b>	<b>716.3</b>	<b>675.5</b>	<b>634.6</b>	<b>634.0</b>	<b>643.1</b>	<b>658.9</b>	<b>674.8</b>	<b>690.1</b>	<b>706.4</b>	<b>723.1</b>	<b>774.3</b>
International Affairs .....	45.7	56.3	59.3	57.3	57.7	58.2	59.0	59.9	61.1	62.6	64.1	65.7
General Science, Space, and Technology .....	29.5	31.0	31.6	30.4	30.6	31.0	31.5	32.2	33.2	33.9	34.6	35.3
Energy .....	12.2	22.1	13.6	11.5	8.4	6.1	6.5	4.9	4.9	4.5	4.2	4.3
Natural Resources and Environment .....	45.5	42.8	42.7	41.8	41.9	43.0	43.3	44.4	45.7	47.0	47.8	48.5
Agriculture .....	20.7	19.2	25.5	22.4	23.4	22.0	22.2	22.5	23.1	23.4	23.8	24.1
Commerce and Housing Credit .....	-12.6	76.9	-23.8	-26.9	-28.1	-29.4	-28.1	-32.0	-36.1	-29.5	-7.8	-6.1
On-Budget .....	(-13.4)	(74.4)	(-24.1)	(-27.2)	(-28.4)	(-29.7)	(-28.3)	(-32.3)	(-36.4)	(-29.8)	(-8.1)	(-6.4)
Off-Budget .....	(0.8)	(2.5)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Transportation .....	93.0	96.9	97.7	96.8	98.6	99.4	101.0	100.6	102.8	104.6	106.6	108.6
Community and Regional Development .....	23.8	31.0	29.8	25.6	21.6	20.7	20.6	20.8	20.9	21.1	21.4	21.7
Education, Training, Employment, and Social Services .....	101.2	101.8	92.2	89.4	97.0	102.9	108.9	114.4	118.0	120.0	121.5	123.4
Health .....	372.5	358.8	383.5	479.7	541.9	592.0	625.3	657.6	698.4	740.7	791.0	842.1
Medicare .....	485.7	484.3	534.9	571.2	593.9	647.6	668.1	693.7	760.4	820.3	883.0	978.0
Income Security .....	597.4	552.8	534.3	532.9	535.9	548.2	544.3	541.2	560.6	573.1	587.4	610.9
Social Security .....	730.8	778.6	827.0	874.0	924.3	976.9	1,033.7	1,093.2	1,156.6	1,224.2	1,295.2	1,369.1
On-Budget .....	(101.9)	(77.3)	(32.7)	(34.9)	(38.6)	(42.7)	(47.2)	(51.4)	(55.7)	(60.2)	(65.0)	(70.1)
Off-Budget .....	(628.9)	(701.2)	(794.2)	(839.1)	(885.6)	(934.2)	(986.5)	(1,041.7)	(1,100.9)	(1,164.0)	(1,230.2)	(1,299.0)
Veterans Benefits and Services .....	127.2	129.6	140.0	146.0	153.5	166.5	169.7	170.9	187.2	196.5	205.7	223.9
Administration of Justice .....	56.1	59.6	67.5	61.4	59.8	62.0	62.1	63.9	65.9	67.7	69.9	73.9
General Government .....	25.5	31.5	24.8	24.0	23.5	23.9	24.2	25.0	25.9	26.8	27.5	28.3
Net Interest .....	230.0	223.2	245.6	305.4	384.2	479.7	570.2	645.0	715.6	782.2	845.8	915.4
On-Budget .....	(345.9)	(335.8)	(354.4)	(412.2)	(490.5)	(585.7)	(678.0)	(755.8)	(829.2)	(899.0)	(964.3)	(1,035.4)
Off-Budget .....	(-116.0)	(-112.6)	(-108.8)	(-106.8)	(-106.2)	(-106.0)	(-107.8)	(-110.8)	(-113.6)	(-116.8)	(-118.5)	(-120.0)
Allowances .....		0.1	-51.8	-75.0	-84.4	-90.4	-92.8	-94.9	-96.8	-99.7	-103.5	-67.7
<b>Undistributed Offsetting Receipts:</b>												
Employer share, employee retirement (on-budget) .....	-64.6	-67.7	-65.8	-65.4	-66.5	-68.4	-74.2	-77.1	-80.1	-83.1	-86.3	-89.6
Employer share, employee retirement (off-budget) .....	-15.1	-15.6	-16.5	-17.2	-18.1	-19.1	-19.9	-20.8	-21.9	-22.9	-24.0	-25.2
Rents and royalties on the Outer Continental Shelf .....	-6.4	-7.9	-6.9	-7.2	-7.5	-7.9	-8.1	-8.6	-8.9	-9.2	-9.8	-10.3
Sale of major assets .....	-0.4	-4.0	-4.0	-4.0	-4.0	-2.0						
Other undistributed offsetting receipts .....		-0.4	-2.0	-1.6								
<b>Total, Undistributed Offsetting Receipts .....</b>	<b>-86.5</b>	<b>-95.7</b>	<b>-95.2</b>	<b>-95.5</b>	<b>-96.2</b>	<b>-97.4</b>	<b>-102.3</b>	<b>-106.4</b>	<b>-110.9</b>	<b>-115.3</b>	<b>-120.1</b>	<b>-125.1</b>
On-Budget .....	(-71.4)	(-80.0)	(-78.7)	(-78.3)	(-78.0)	(-78.3)	(-82.3)	(-85.6)	(-89.0)	(-92.4)	(-96.1)	(-99.9)
Off-Budget .....	(-15.1)	(-15.6)	(-16.5)	(-17.2)	(-18.1)	(-19.1)	(-19.9)	(-20.8)	(-21.9)	(-22.9)	(-24.0)	(-25.2)
<b>Total .....</b>	<b>3,603.1</b>	<b>3,717.1</b>	<b>3,654.6</b>	<b>3,806.8</b>	<b>4,021.4</b>	<b>4,305.8</b>	<b>4,526.3</b>	<b>4,731.7</b>	<b>5,026.3</b>	<b>5,310.4</b>	<b>5,621.2</b>	<b>6,048.5</b>
On-Budget .....	(3,104.5)	(3,141.6)	(2,985.4)	(3,091.5)	(3,259.9)	(3,496.5)	(3,667.3)	(3,821.3)	(4,060.6)	(4,285.9)	(4,533.3)	(4,894.5)
Off-Budget .....	(498.6)	(575.5)	(669.2)	(715.3)	(761.5)	(809.3)	(859.1)	(910.5)	(965.7)	(1,024.5)	(1,088.0)	(1,154.0)



**Table 27–10. OUTLAYS BY AGENCY IN THE ADJUSTED BASELINE**  
(In billions of dollars)

Agency	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Legislative Branch .....	4.6	5.3	4.9	4.9	4.9	5.0	5.2	5.4	5.6	5.7	5.9	6.1
Judicial Branch .....	7.3	7.6	7.7	7.5	7.8	8.0	8.2	8.5	8.7	9.0	9.3	9.6
Agriculture .....	139.4	150.6	154.4	144.2	143.9	142.2	141.6	141.5	142.1	143.4	145.3	145.9
Commerce .....	9.9	11.3	9.8	8.5	8.6	8.9	9.1	9.3	9.6	9.8	10.1	10.4
Defense—Military Programs .....	678.1	688.3	691.3	671.6	681.2	696.7	714.8	732.6	750.1	768.3	787.1	806.3
Education .....	65.5	66.1	54.9	60.0	67.4	73.4	79.0	84.1	87.2	88.5	89.5	90.8
Energy .....	31.4	39.0	32.5	28.8	26.8	25.6	26.1	25.2	25.6	26.0	26.4	26.9
Health and Human Services .....	891.2	871.5	944.9	1,054.7	1,116.2	1,206.0	1,248.6	1,300.9	1,400.8	1,496.6	1,601.3	1,738.0
Homeland Security .....	45.7	59.8	56.4	53.2	51.9	52.1	53.5	54.9	56.5	58.2	60.0	63.7
Housing and Urban Development .....	57.0	56.7	42.0	43.0	42.4	42.7	43.2	43.8	44.4	45.4	46.3	47.2
Interior .....	13.5	11.2	13.1	13.5	13.0	13.1	13.5	13.7	14.0	14.3	14.7	14.9
Justice .....	30.5	32.2	40.8	35.7	33.6	35.0	34.3	35.1	36.1	37.2	38.2	39.4
Labor .....	132.0	99.5	70.0	69.7	67.6	65.9	64.7	64.5	66.2	68.5	71.2	74.0
State .....	24.4	29.9	31.5	32.7	33.0	33.1	33.7	34.3	34.8	35.5	36.2	36.9
Transportation .....	77.3	78.4	81.0	80.1	81.3	81.6	82.6	81.7	83.2	84.4	85.7	87.0
Treasury .....	536.7	578.0	539.9	597.5	695.2	809.0	916.5	1,007.1	1,094.5	1,178.2	1,257.6	1,343.8
Veterans Affairs .....	126.9	129.2	139.6	145.5	153.1	166.1	169.3	170.5	186.8	196.0	205.3	223.5
Corps of Engineers—Civil Works .....	10.1	9.2	9.4	8.5	8.1	8.1	7.6	7.8	8.0	8.1	8.3	8.6
Other Defense Civil Programs .....	54.8	52.0	57.6	60.0	61.8	66.6	63.9	60.7	66.7	68.5	70.4	78.1
Environmental Protection Agency .....	10.8	9.4	8.9	8.6	8.8	9.2	9.4	9.8	10.1	10.3	10.4	10.5
Executive Office of the President .....	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
General Services Administration .....	1.9	1.1	0.9	-0.2	-1.0	-1.2	-1.3	-1.3	-1.3	-1.3	-1.4	-1.4
International Assistance Programs .....	20.6	25.6	27.6	24.3	24.5	24.9	25.0	25.3	25.9	26.7	27.6	28.4
National Aeronautics and Space Administration .....	17.6	17.6	18.2	18.6	18.8	19.3	19.7	20.1	20.6	21.0	21.5	22.0
National Science Foundation .....	7.1	8.3	7.5	7.3	7.3	7.2	7.2	7.4	7.9	8.0	8.2	8.3
Office of Personnel Management .....	74.1	69.1	79.2	83.1	87.0	90.5	102.1	106.3	110.9	115.8	120.8	126.2
Small Business Administration .....	6.2	3.2	1.3	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2
Social Security Administration .....	784.2	827.0	881.7	931.2	983.5	1,042.3	1,096.3	1,152.8	1,222.7	1,292.3	1,365.4	1,446.8
On-Budget .....	(155.3)	(125.8)	(87.5)	(92.1)	(97.9)	(108.1)	(109.8)	(111.1)	(121.8)	(128.4)	(135.2)	(147.8)
Off-Budget .....	(628.9)	(701.2)	(794.2)	(839.1)	(885.6)	(934.2)	(986.5)	(1,041.7)	(1,100.9)	(1,164.0)	(1,230.2)	(1,299.0)
Other Independent Agencies .....	18.3	55.7	11.7	18.8	20.3	16.3	11.5	5.3	1.9	7.1	29.0	30.3
On-Budget .....	(17.5)	(53.2)	(11.4)	(18.5)	(20.0)	(16.0)	(11.2)	(5.1)	(1.7)	(6.8)	(28.7)	(30.1)
Off-Budget .....	(0.8)	(2.5)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Allowances .....		0.1	-96.1	-139.5	-159.0	-171.8	-177.0	-181.6	-186.3	-191.6	-198.1	-131.2
Undistributed Offsetting Receipts .....	-274.5	-276.1	-268.6	-266.2	-267.9	-271.8	-283.4	-295.5	-308.5	-321.3	-332.5	-344.2
On-Budget .....	(-143.4)	(-147.8)	(-143.3)	(-142.2)	(-143.6)	(-146.6)	(-155.7)	(-164.0)	(-173.0)	(-181.6)	(-190.0)	(-198.9)
Off-Budget .....	(-131.1)	(-128.2)	(-125.3)	(-124.1)	(-124.3)	(-125.1)	(-127.7)	(-131.5)	(-135.5)	(-139.8)	(-142.5)	(-145.3)
<b>Total .....</b>	<b>3,603.1</b>	<b>3,717.1</b>	<b>3,654.6</b>	<b>3,806.8</b>	<b>4,021.4</b>	<b>4,305.8</b>	<b>4,526.3</b>	<b>4,731.7</b>	<b>5,026.3</b>	<b>5,310.4</b>	<b>5,621.2</b>	<b>6,048.5</b>
On-Budget .....	(3,104.5)	(3,141.6)	(2,985.4)	(3,091.5)	(3,259.9)	(3,496.5)	(3,667.3)	(3,821.3)	(4,060.6)	(4,285.9)	(4,533.3)	(4,894.5)
Off-Budget .....	(498.6)	(575.5)	(669.2)	(715.3)	(761.5)	(809.3)	(859.1)	(910.5)	(965.7)	(1,024.5)	(1,088.0)	(1,154.0)

**Table 27–11. BUDGET AUTHORITY BY FUNCTION IN THE ADJUSTED BASELINE**  
(In billions of dollars)

Function	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>National Defense:</b>												
Department of Defense—Military .....	691.5	650.5	593.9	605.4	617.3	630.3	645.1	660.3	675.5	691.7	708.0	779.0
Other .....	26.0	26.2	23.5	23.7	24.1	24.4	24.9	25.4	25.8	26.3	26.8	29.9
<b>Total, National Defense .....</b>	<b>717.4</b>	<b>676.7</b>	<b>617.5</b>	<b>629.1</b>	<b>641.3</b>	<b>654.7</b>	<b>670.0</b>	<b>685.6</b>	<b>701.3</b>	<b>718.1</b>	<b>734.9</b>	<b>808.9</b>
International Affairs .....	53.6	61.3	70.0	48.3	51.5	54.8	57.8	60.4	62.5	64.5	66.3	68.1
General Science, Space, and Technology .....	29.7	29.1	29.7	30.3	30.9	31.5	32.2	32.8	33.5	34.2	34.9	35.7
Energy .....	6.7	8.1	9.0	9.7	8.0	6.4	6.3	6.1	6.0	5.7	5.4	5.5
Natural Resources and Environment .....	35.4	37.0	38.2	39.2	40.2	41.5	43.0	44.4	45.7	46.8	47.7	48.7
Agriculture .....	21.5	17.1	23.9	22.2	23.1	21.9	22.2	22.6	23.1	23.5	23.8	24.2
Commerce and Housing Credit .....	-54.2	1.9	-13.4	-12.7	-9.8	-5.5	2.3	5.4	6.2	6.8	7.6	8.3
On-Budget .....	(-55.2)	(0.2)	(-13.4)	(-12.7)	(-9.8)	(-5.5)	(2.3)	(5.4)	(6.2)	(6.8)	(7.6)	(8.3)
Off-Budget .....	(1.0)	(1.7)	.....	*	*	*	*	*	*	.....	_*	_*
Transportation .....	86.5	88.6	90.3	92.2	94.2	96.4	98.6	100.8	103.1	105.4	107.9	110.4
Community and Regional Development .....	14.9	18.8	18.8	19.1	19.5	19.9	20.3	20.8	21.2	21.7	22.1	22.6
Education, Training, Employment, and Social Services .....	76.5	89.1	89.9	90.9	98.1	104.7	111.0	116.0	119.7	121.1	123.1	125.1
Health .....	359.7	362.0	372.1	484.5	551.0	578.6	619.3	655.4	696.7	749.9	790.6	841.4
Medicare .....	502.4	499.2	534.7	571.4	594.0	647.5	668.4	694.0	760.5	820.8	883.4	978.2
Income Security .....	583.7	539.9	525.2	530.4	537.8	548.2	549.5	551.8	566.1	578.2	592.2	608.9
Social Security .....	731.7	781.2	831.4	877.3	928.2	981.3	1,038.2	1,098.0	1,161.8	1,229.8	1,301.3	1,375.3
On-Budget .....	(101.9)	(77.3)	(32.5)	(34.7)	(38.6)	(42.7)	(47.2)	(51.4)	(55.7)	(60.2)	(65.0)	(70.1)
Off-Budget .....	(629.8)	(703.9)	(798.8)	(842.6)	(889.7)	(938.5)	(991.0)	(1,046.6)	(1,106.2)	(1,169.6)	(1,236.3)	(1,305.1)
Veterans Benefits and Services .....	123.1	124.6	136.4	146.7	154.2	161.8	170.7	179.3	188.4	197.7	207.0	216.8
Administration of Justice .....	53.6	55.2	65.5	57.4	58.9	62.4	62.5	64.3	66.2	68.2	70.3	74.4
General Government .....	23.9	28.5	23.3	23.9	24.4	25.0	25.5	26.2	26.9	27.6	28.4	29.2
Net Interest .....	230.5	222.7	245.6	305.4	384.2	479.7	570.2	645.0	715.6	782.2	845.8	915.4
On-Budget .....	(346.5)	(335.3)	(354.4)	(412.2)	(490.5)	(585.7)	(678.0)	(755.8)	(829.2)	(899.0)	(964.3)	(1,035.4)
Off-Budget .....	(-116.0)	(-112.6)	(-108.8)	(-106.8)	(-106.2)	(-106.0)	(-107.8)	(-110.8)	(-113.6)	(-116.8)	(-118.5)	(-120.0)
Allowances .....	.....	0.5	-74.6	-84.8	-88.7	-92.1	-93.5	-96.1	-98.2	-101.8	-106.1	-52.9
<b>Undistributed Offsetting Receipts:</b>												
Employer share, employee retirement (on-budget) .....	-64.6	-67.7	-65.8	-65.4	-66.5	-68.4	-74.2	-77.1	-80.1	-83.1	-86.3	-89.6
Employer share, employee retirement (off-budget) .....	-15.1	-15.6	-16.5	-17.2	-18.1	-19.1	-19.9	-20.8	-21.9	-22.9	-24.0	-25.2
Rents and royalties on the Outer Continental Shelf .....	-6.4	-7.9	-6.9	-7.2	-7.5	-7.9	-8.1	-8.6	-8.9	-9.2	-9.8	-10.3
Sale of major assets .....	-0.4	-4.0	-4.0	-4.0	-4.0	-2.0	.....	.....	.....	.....	.....	.....
Other undistributed offsetting receipts .....	.....	-0.4	-2.0	-1.6	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total, Undistributed Offsetting Receipts ..</b>	<b>-86.5</b>	<b>-95.7</b>	<b>-95.2</b>	<b>-95.5</b>	<b>-96.2</b>	<b>-97.4</b>	<b>-102.3</b>	<b>-106.4</b>	<b>-110.9</b>	<b>-115.3</b>	<b>-120.1</b>	<b>-125.1</b>
On-Budget .....	(-71.4)	(-80.0)	(-78.7)	(-78.3)	(-78.0)	(-78.3)	(-82.3)	(-85.6)	(-89.0)	(-92.4)	(-96.1)	(-99.9)
Off-Budget .....	(-15.1)	(-15.6)	(-16.5)	(-17.2)	(-18.1)	(-19.1)	(-19.9)	(-20.8)	(-21.9)	(-22.9)	(-24.0)	(-25.2)
<b>Total .....</b>	<b>3,510.0</b>	<b>3,545.7</b>	<b>3,538.1</b>	<b>3,784.8</b>	<b>4,045.1</b>	<b>4,321.2</b>	<b>4,572.4</b>	<b>4,806.6</b>	<b>5,095.6</b>	<b>5,384.9</b>	<b>5,666.5</b>	<b>6,119.0</b>
On-Budget .....	(3,010.2)	(2,968.3)	(2,864.6)	(3,066.3)	(3,279.8)	(3,507.8)	(3,709.0)	(3,891.5)	(4,124.9)	(4,355.1)	(4,572.8)	(4,959.1)
Off-Budget .....	(499.7)	(577.4)	(673.5)	(718.5)	(765.3)	(813.4)	(863.4)	(915.1)	(970.7)	(1,029.8)	(1,093.8)	(1,159.9)
<b>MEMORANDUM</b>												
<b>Discretionary budget authority:</b>												
National Defense .....	710.5	669.8	609.1	621.2	633.5	646.9	662.4	677.8	693.4	710.0	726.6	800.3
International Affairs .....	50.4	54.9	56.4	57.6	58.9	60.2	61.5	62.8	64.2	65.7	67.1	68.7
Domestic .....	456.6	470.7	416.5	424.7	433.9	442.9	453.0	463.8	475.7	486.6	497.4	547.5
<b>Total, discretionary .....</b>	<b>1,217.5</b>	<b>1,195.5</b>	<b>1,082.0</b>	<b>1,103.5</b>	<b>1,126.3</b>	<b>1,150.0</b>	<b>1,176.8</b>	<b>1,204.5</b>	<b>1,233.3</b>	<b>1,262.2</b>	<b>1,291.2</b>	<b>1,416.5</b>

\* \$50 million or less.

**Table 27–12. BUDGET AUTHORITY BY AGENCY IN THE ADJUSTED BASELINE**  
(In billions of dollars)

Agency	2011 Actual	Estimate										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Legislative Branch .....	4.7	4.5	4.7	4.8	5.0	5.1	5.3	5.5	5.6	5.8	6.0	6.2
Judicial Branch .....	7.2	7.3	7.5	7.6	7.9	8.1	8.4	8.6	8.9	9.2	9.5	9.8
Agriculture .....	140.7	147.5	155.5	147.6	148.7	147.5	147.1	147.1	147.7	148.6	150.8	151.4
Commerce .....	5.7	8.0	8.6	8.5	8.7	9.0	9.2	9.5	9.7	10.0	10.3	10.6
Defense—Military Programs .....	691.5	650.5	664.1	678.4	694.2	710.6	727.4	744.8	762.8	781.3	800.3	819.9
Education .....	43.6	53.5	53.3	61.6	69.0	75.1	80.9	85.4	88.5	89.3	90.7	92.2
Energy .....	22.6	22.8	24.9	26.6	26.3	26.1	26.0	26.5	26.9	27.3	27.8	28.2
Health and Human Services .....	889.3	888.7	933.1	1,059.6	1,125.8	1,193.0	1,243.2	1,299.2	1,400.1	1,506.6	1,601.5	1,738.1
Homeland Security .....	41.6	46.7	48.0	49.4	50.9	52.4	54.0	55.6	57.3	59.0	60.8	64.6
Housing and Urban Development .....	48.5	40.9	43.7	44.8	45.7	46.6	47.6	48.7	49.8	50.9	52.0	53.0
Interior .....	12.3	11.6	11.4	11.7	11.7	12.0	12.7	13.2	13.6	14.2	14.3	14.7
Justice .....	29.2	31.4	39.5	31.9	32.6	35.3	34.5	35.4	36.4	37.5	38.5	39.7
Labor .....	130.2	97.9	68.6	69.8	67.6	65.5	63.6	62.6	63.4	65.2	67.4	70.0
State .....	26.9	30.1	30.8	31.4	32.1	32.8	33.6	34.3	35.1	35.9	36.8	37.6
Transportation .....	70.5	72.6	74.1	75.4	76.9	78.4	80.0	81.6	83.3	85.0	86.7	88.5
Treasury .....	492.2	522.0	516.8	586.3	691.1	807.9	916.7	1,008.2	1,095.5	1,179.1	1,258.5	1,344.8
Veterans Affairs .....	122.8	124.2	136.0	146.3	153.8	161.4	170.3	178.9	188.0	197.3	206.6	216.3
Corps of Engineers—Civil Works .....	4.9	6.7	6.8	7.0	7.2	7.4	7.6	7.8	8.0	8.2	8.4	8.6
Other Defense Civil Programs .....	51.1	55.5	57.8	60.0	61.8	62.2	63.8	65.2	66.6	68.4	70.3	72.2
Environmental Protection Agency .....	8.6	8.3	8.5	8.7	9.0	9.2	9.4	9.7	9.9	10.2	10.5	10.7
Executive Office of the President .....	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
General Services Administration .....	-1.0	-1.0	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.2	-1.2
International Assistance Programs .....	25.6	30.5	38.3	15.9	18.4	21.0	23.2	24.9	26.3	27.4	28.3	29.1
National Aeronautics and Space Administration .....	18.4	17.8	18.1	18.5	18.9	19.3	19.7	20.2	20.6	21.1	21.6	22.1
National Science Foundation .....	6.9	7.1	7.3	7.4	7.5	7.7	7.8	7.9	8.1	8.2	8.4	8.6
Office of Personnel Management .....	79.4	72.3	81.7	85.3	89.1	92.9	104.7	109.0	113.6	118.5	123.5	128.5
Small Business Administration .....	5.5	2.7	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.2	1.2
Social Security Administration .....	784.5	829.9	886.2	934.4	987.5	1,046.4	1,100.8	1,158.0	1,228.0	1,298.0	1,371.5	1,452.6
On-Budget .....	(154.7)	(126.0)	(87.3)	(91.9)	(97.9)	(107.9)	(109.8)	(111.4)	(121.8)	(128.4)	(135.2)	(147.4)
Off-Budget .....	(629.8)	(703.9)	(798.8)	(842.6)	(889.7)	(938.5)	(991.0)	(1,046.6)	(1,106.2)	(1,169.6)	(1,236.3)	(1,305.1)
Other Independent Agencies .....	20.8	30.8	29.3	32.8	34.2	35.6	37.3	38.2	39.1	38.9	40.0	40.3
On-Budget .....	(19.8)	(29.1)	(29.3)	(32.8)	(34.2)	(35.6)	(37.3)	(38.2)	(39.1)	(38.9)	(40.0)	(40.3)
Off-Budget .....	(1.0)	(1.7)	.....	*	*	*	*	*	*	.....	—*	—*
Allowances .....	.....	0.5	-148.0	-161.0	-169.0	-176.1	-179.4	-184.5	-189.4	-195.4	-202.5	-95.5
Undistributed Offsetting Receipts .....	-274.5	-276.1	-268.6	-266.2	-267.9	-271.8	-283.4	-295.5	-308.5	-321.3	-332.5	-344.2
On-Budget .....	(-143.4)	(-147.8)	(-143.3)	(-142.2)	(-143.6)	(-146.6)	(-155.7)	(-164.0)	(-173.0)	(-181.6)	(-190.0)	(-198.9)
Off-Budget .....	(-131.1)	(-128.2)	(-125.3)	(-124.1)	(-124.3)	(-125.1)	(-127.7)	(-131.5)	(-135.5)	(-139.8)	(-142.5)	(-145.3)
<b>Total .....</b>	<b>3,510.0</b>	<b>3,545.7</b>	<b>3,538.1</b>	<b>3,784.8</b>	<b>4,045.1</b>	<b>4,321.2</b>	<b>4,572.4</b>	<b>4,806.6</b>	<b>5,095.6</b>	<b>5,384.9</b>	<b>5,666.5</b>	<b>6,119.0</b>
On-Budget .....	(3,010.2)	(2,968.3)	(2,864.6)	(3,066.3)	(3,279.8)	(3,507.8)	(3,709.0)	(3,891.5)	(4,124.9)	(4,355.1)	(4,572.8)	(4,959.1)
Off-Budget .....	(499.7)	(577.4)	(673.5)	(718.5)	(765.3)	(813.4)	(863.4)	(915.1)	(970.7)	(1,029.8)	(1,093.8)	(1,159.9)

\* \$50 million or less.

## 28. TRUST FUNDS AND FEDERAL FUNDS

As is common for State and local government budgets, the budget for the Federal Government contains information about collections and expenditures for different types of funds. This chapter presents summary information about the transactions of the two major fund groups used by the Federal Government, trust funds and Federal funds. It also presents information about the income and outgo of the major trust funds and a number of Federal funds that are financed by dedicated collections in a manner similar to trust funds.

### The Federal Funds Group

The Federal funds group includes all financial transactions of the Government that are not required by law to be recorded in trust funds. It accounts for a larger share of the budget than the trust funds group.

The Federal funds group includes the “general fund,” which is used for the general purposes of Government rather than being restricted by law to a specific program. The general fund is the largest fund in the Government and it receives all collections not dedicated for some other fund, including virtually all income taxes and many excise taxes. The general fund is used for all programs that are not supported by trust, special, or revolving funds.

The Federal funds group also includes special funds and revolving funds, both of which receive collections that are dedicated by law for specific purposes. Where the law requires that Federal fund collections be dedicated to a particular program, the collections and associated disbursements are recorded in special fund receipt and expenditure accounts.<sup>1</sup> An example is the portion of the Outer Continental Shelf mineral leasing receipts deposited into the Land and Water Conservation Fund. Money in special fund receipt accounts must be appropriated before it can be obligated and spent. The majority of special fund collections are derived from the Government’s power to impose taxes or fines, or otherwise compel payment, as in the case of the Nuclear Waste Disposal Fund. In addition, a significant amount of collections credited to special funds is derived from certain types of business-like activity, such as the sale of Government land or other assets or the use of Government property. These collections include receipts from timber sales and royalties from oil and gas extraction.

Revolving funds are used to conduct continuing cycles of business-like activity. Revolving funds receive proceeds from the sale of products or services, and these proceeds finance ongoing activities that continue to provide products or services. Instead of being deposited in receipt accounts,

<sup>1</sup>There are two types of budget accounts: expenditure (or appropriation) accounts and receipt accounts. Expenditure accounts are used to record outlays and receipt accounts are used to record governmental receipts and offsetting receipts.

the proceeds are recorded in revolving fund expenditure accounts. The proceeds are generally available for obligation and expenditure without further legislative action. Outlays for programs with revolving funds are reported both gross and net of these proceeds; gross outlays include the expenditures from the proceeds and net program outlays are derived by subtracting the proceeds from gross outlays. Because the proceeds of these sales are recorded as offsets to outlays within expenditure accounts rather than receipt accounts, the proceeds are known as “offsetting collections.” There are two classes of revolving funds in the Federal funds group. Public enterprise funds, such as the Postal Service Fund, conduct business-like operations mainly with the public. Intragovernmental funds, such as the Federal Buildings Fund, conduct business-like operations mainly within and between Government agencies.

### The Trust Funds Group

The trust funds group consists of funds that are designated by law as trust funds. Like special funds and revolving funds, trust funds receive collections that are dedicated by law for specific purposes. Many of the larger trust funds are used to budget for social insurance programs, such as Social Security, Medicare, and unemployment compensation. Other large trust funds are used to budget for military and Federal civilian employees’ retirement benefits, highway and transit construction and maintenance, and airport and airway development and maintenance. There are a few trust revolving funds that are credited with collections earmarked by law to carry out a cycle of business-type operations. There are also a few small trust funds that have been established to carry out the terms of a conditional gift or bequest.

There is no substantive difference between special funds in the Federal funds group and trust funds or between revolving funds in the Federal funds group and trust revolving funds. Whether a particular fund is designated in law as a trust fund is, in many cases, arbitrary. For example, the National Service Life Insurance Fund is a trust fund, but the Servicemen’s Group Life Insurance Fund is a Federal fund, even though both receive dedicated collections from veterans and both provide life insurance payments to veterans’ beneficiaries.<sup>2</sup>

The Federal Government uses the term “trust fund” differently than the way in which it is commonly used. In

<sup>2</sup>Another example is the Violent Crime Reduction Trust Fund, which expired in 2000. Despite the presence of the words “Trust Fund” in its official name, the Fund was classified as a Federal fund because it was not required by law to be classified as a trust fund. In addition, the Fund was substantively a means of accounting for general fund appropriations and did not contain any dedicated receipts. Programs formerly funded through the Fund are now funded through general appropriations.

common usage, the term is used to refer to a private fund that has a beneficiary who owns the trust's income and may also own the trust's assets. A custodian or trustee manages the assets on behalf of the beneficiary according to the terms of the trust agreement, as established by a trustor. Neither the trustee nor the beneficiary can change the terms of the trust agreement; only the trustor can change the terms of the agreement. In contrast, the Federal Government owns and manages the assets and the earnings of most Federal trust funds and can unilaterally change the law to raise or lower future trust fund collections and payments or change the purpose for which the collections are used. Only a few small Federal trust funds are managed pursuant to a trust agreement whereby the Government acts as the trustee; even then the Government generally owns the funds and has some

ability to alter the amount deposited into or paid out of the funds.

Deposit funds, which are funds held by the Government as a custodian on behalf of individuals or a non-Federal entity, are similar to private-sector trust funds. The Government makes no decisions about the amount of money placed in deposit funds or about how the proceeds are spent. For this reason, these funds are not classified as Federal trust funds, but are instead considered to be non-budgetary and excluded from the Federal budget.<sup>3</sup>

The income of a Federal Government trust fund must be used for the purposes specified in law. The income of some trust funds, such as the Federal Employees Health

<sup>3</sup> Deposit funds are discussed briefly in Chapter 13 of this volume, "Coverage of the Budget."

**Table 28-1. RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT BY FUND GROUP**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Receipts:</b>							
Federal funds cash income:							
From the public .....	1,634.8	1,745.8	2,031.0	2,258.4	2,421.0	2,571.0	2,742.6
From trust funds .....	2.7	2.5	2.4	2.3	2.2	2.1	2.1
Total, Federal funds cash income .....	1,637.6	1,748.3	2,033.4	2,260.7	2,423.1	2,573.1	2,744.7
Trust funds cash income:							
From the public .....	981.6	1,011.7	1,151.4	1,254.5	1,333.5	1,414.4	1,484.0
From Federal funds:							
Interest .....	188.0	180.4	173.3	170.5	171.7	174.6	181.8
Other .....	560.4	596.5	570.0	549.2	573.0	610.6	635.4
Total, Trust funds cash income .....	1,730.0	1,788.6	1,894.7	1,974.2	2,078.2	2,199.6	2,301.2
Offsetting receipts:							
Federal funds .....	-208.8	-179.5	-153.4	-149.8	-147.5	-143.4	-139.2
Trust funds .....	-855.3	-888.7	-872.8	-869.8	-903.7	-949.2	-987.5
Total, offsetting receipts .....	-1,064.1	-1,068.2	-1,026.1	-1,019.6	-1,051.2	-1,092.6	-1,126.7
Total, unified budget receipts .....	2,303.5	2,468.6	2,902.0	3,215.3	3,450.2	3,680.1	3,919.3
Federal funds .....	1,428.8	1,568.8	1,880.0	2,111.0	2,275.6	2,429.7	2,605.5
Trust funds .....	874.7	899.8	1,021.9	1,104.3	1,174.5	1,250.4	1,313.7
<b>Outlays:</b>							
Federal funds cash outgo .....	3,034.2	3,174.4	3,043.5	3,037.9	3,168.4	3,357.0	3,507.6
Trust funds cash outgo .....	1,632.9	1,689.3	1,786.0	1,864.8	1,942.6	2,064.4	2,150.8
Offsetting receipts:							
Federal funds .....	-208.8	-179.5	-153.4	-149.8	-147.5	-143.4	-139.2
Trust funds .....	-855.3	-888.7	-872.8	-869.8	-903.7	-949.2	-987.5
Total, offsetting receipts .....	-1,064.1	-1,068.2	-1,026.1	-1,019.6	-1,051.2	-1,092.6	-1,126.7
Total, unified budget outlays .....	3,603.1	3,795.5	3,803.4	3,883.1	4,059.9	4,328.8	4,531.7
Federal funds .....	2,825.4	2,994.9	2,890.1	2,888.1	3,020.9	3,213.6	3,368.5
Trust funds .....	777.6	800.6	913.2	995.0	1,039.0	1,115.2	1,163.2
<b>Surplus or deficit(-):</b>							
Federal funds .....	-1,396.6	-1,426.2	-1,010.1	-777.2	-745.3	-783.9	-762.9
Trust funds .....	97.0	99.2	108.7	109.4	135.6	135.2	150.5
Total, unified surplus/deficit(-) .....	-1,299.6	-1,326.9	-901.4	-667.8	-609.7	-648.8	-612.4

Note: Receipts include governmental, interfund, and proprietary, and exclude intrafund receipts (which are offset against intrafund payments so that cash income and cash outgo are not overstated).



Benefits fund, is spent almost as quickly as it is collected. In other cases, such as the Social Security and Federal civilian employees' retirement trust funds, the trust fund income is not spent as quickly as it is collected. Currently, these funds do not use all of their annual income (which includes intragovernmental interest income). This surplus of income over outgo adds to the trust fund's balance, which is available for future expenditures. The balances are generally required by law to be invested in Federal securities issued by the Department of the Treasury.<sup>4</sup> The National Railroad Retirement Investment Trust is a rare example of a Government trust fund authorized to invest balances in equity markets.

A trust fund normally consists of one or more receipt accounts (to record income) and an expenditure account (to record outgo). However, a few trust funds, such as the Veterans Special Life Insurance fund, are established by law as trust revolving funds. Such a fund is similar to a revolving fund in the Federal funds group in that it may consist of a single account to record both income and outgo. Trust revolving funds are used to conduct a cycle of business-type operations; offsetting collections are credited to the funds (which are also expenditure accounts) and the funds' outlays are displayed net of the offsetting collections.

### Income and Outgo by Fund Group

Table 28–1 shows income, outgo, and the surplus or deficit by fund group and in the aggregate (netted to avoid double-counting) from which the total unified budget receipts, outlays, and surplus or deficit are derived. Income consists mostly of governmental receipts (derived from governmental activity, primarily income, payroll, and excise taxes). Income also consists of offsetting receipts, which include proprietary receipts (derived from business-like transactions with the public), interfund collections (derived from payments from a fund in one fund group to a fund in the other fund group), and gifts. Outgo consists of payments made to the public or to a fund in the other fund group.

Two types of transactions are treated specially in the table. First, income and outgo for each fund group exclude all transactions that occur between funds within the same fund group.<sup>5</sup> These intrafund transactions constitute outgo and income for the individual funds that make and collect the payments, but they are offsetting within the fund group as a whole. The totals for each fund group measure only the group's transactions with the public and the other fund group. Second, outgo is calculated net of the collections that are credited to expenditure accounts (which, as noted above, are referred to as offsetting collec-

tions); the collections are added to and subsequently subtracted from outgo.<sup>6</sup> Although it would be conceptually correct to add interfund offsetting collections to income for a particular fund, this cannot be done at the present time because the budget data do not provide this type of detail. As a result, both interfund and intrafund offsetting collections are offset against outgo in Table 28–1 and are not shown separately.

The vast majority of the interfund transactions in the table are payments by the Federal funds to the trust funds. These payments include interest payments from the general fund to the trust funds for interest earned on trust fund balances invested in interest-bearing Treasury securities. The payments also include payments by Federal agencies to Federal employee benefits and Social Security trust funds on behalf of current employees and general fund transfers to employee retirement trust funds to amortize the unfunded liabilities of these funds. In addition, the payments include general fund transfers to the Medicare Supplementary Insurance trust fund for the cost of Parts B (outpatient and physician benefits) and D (prescription drug benefits) that is not covered by premiums (or, for Part D, transfers from States).

In 2011 and 2012, general fund transfers were made to the Social Security trust funds to hold the funds harmless for the one-year (2 percentage point) reduction in the Social Security payroll tax rate enacted in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and the two-month extension of the payroll tax reduction enacted in the Temporary Tax Cut Continuation Act of 2011. In a letter dated December 16, 2011 (before enactment of the two-month extension), the Chief Actuary of the Social Security Administration addressed the impact on the trust funds of a one-year (2 percentage point) payroll tax holiday extension coupled with general fund transfers (as reflected in H.R. 3630). The Chief Actuary stated, "Enactment of [this provision] would have a negligible effect on the financial status of the [Old Age and Survivors Insurance (OASI) and Disability Insurance (DI)] program in both the near term and long term. We estimate that the projected level of the OASI and DI Trust Funds would be unaffected by enactment of this provision." The Budget proposes further general fund transfers in 2012 and 2013 to hold the funds harmless for continuing the payroll tax reduction through December 31, 2012.

In addition to investing their balances with Treasury, some funds in the Federal funds group and most trust funds<sup>7</sup> are authorized to borrow from the general fund of the Treasury.<sup>8</sup> Similar to the treatment of funds invested

<sup>4</sup> Securities held by trust funds (and by other Government accounts), debt held by the public, and gross Federal debt are discussed in Chapter 6 of this volume, "Federal Borrowing and Debt."

<sup>5</sup> For example, the railroad retirement trust funds pay the equivalent of Social Security benefits to railroad retirees in addition to the regular railroad pension. These benefits are financed by a payment from the Federal Old-Age and Survivors Insurance trust fund to the railroad retirement trust funds. The payment and collection are not included in Table 28–1 so that the total trust fund income and outgo shown in the table reflect disbursements to the public and to Federal funds.

<sup>6</sup> For example, postage stamp fees are deposited as offsetting collections in the Postal Service Fund. As a result, the Fund's outgo reported in Table 28–1 is gross disbursements less collections.

<sup>7</sup> For example, the Unemployment trust fund borrowed \$22 billion from the general fund in 2011 for unemployment benefits.

<sup>8</sup> For example, the Bonneville Power Administration Fund, a revolving fund in the Department of Energy, is authorized to borrow from the general fund. The Black Lung Disability Trust Fund, a trust fund in the Department of Labor, is authorized to receive appropriations of repayable advances from the general fund; this constitutes a form of borrowing.

with Treasury, borrowed funds are not recorded as receipts of the fund or included in the income of the fund. Rather, the borrowed funds finance outlays by the fund in excess of available receipts. Subsequently, any excess fund receipts are transferred from the fund to the general fund in repayment of the borrowing. The repayment is not recorded as an outlay of the fund or included in fund outgo. This treatment is consistent with the broad principle that borrowing and debt redemption are not budgetary transactions but rather a means of financing deficits or disposing of surpluses.<sup>9</sup>

Some income in both Federal funds and trust funds consists of offsetting receipts.<sup>10</sup> Offsetting receipts are not considered governmental receipts (such as taxes), but they are instead recorded on the outlay side of the budget. Expenditures resulting from offsetting receipts are recorded as gross outlays and the collections of offsetting receipts are then subtracted from gross outlays to derive net outlays. There are three types of offsetting receipts: (1) collections from business-like or market oriented activities, (2) regulatory fees that are required by law to be classified as offsetting receipts rather than as governmental receipts, and (3) intragovernmental payments. Net outlays reflect the government's net transactions with the public.

As shown in Table 28-1, 38.0 percent of all governmental receipts were deposited in trust funds in 2011 and the remaining 62.0 percent of receipts were deposited in Federal funds, which, as noted above, include the general fund. Although accounting for well over one-third of all receipts, the trust funds accounted for a much smaller share, only 21.6 percent, of outlays. The significance of this difference between the trust fund share of receipts and the trust fund share of outlays is discussed in the next section.

Because the income for Federal funds and trust funds recorded in Table 28-1 includes offsetting receipts, offsetting receipts must be deducted from the two fund groups' combined gross income in order to reconcile to total (net) unified budget receipts. Similarly, because the outgo for Federal funds and trust funds in Table 28-1 consists of outlays gross of offsetting receipts, the amount of the offsetting receipts must be deducted from the sum of the Federal funds' and the trust funds' gross outgo in order to reconcile to total (net) unified budget outlays. Table 28-2 reconciles, for fiscal year 2011, the gross total of all trust fund and Federal fund receipts with the net total of the cash income of the Federal fund group and the trust fund group (as shown in Table 28-1) and with the receipt total of the unified budget.

### Income, Outgo, and Balances of Trust Funds

Table 28-3 shows, for the trust funds group as a whole, the funds' balance at the start of each year, income and

<sup>9</sup> Borrowing and debt repayment are discussed in Chapter 6 of this volume, "Federal Borrowing and Debt," and Chapter 12 of this volume, "Budget Concepts."

<sup>10</sup> Interest on borrowed funds is an example of an intragovernmental offsetting receipt and Medicare Part B's premiums are an example of offsetting receipts from the public.

**Table 28-2. COMPARISON OF TOTAL FEDERAL FUND AND TRUST FUND RECEIPTS TO UNIFIED BUDGET RECEIPTS, 2011**

(In billions of dollars)

Gross Trust fund receipts .....	1,736.3
Gross Federal fund receipts .....	1,675.3
Total, gross receipts .....	3,411.6
Deduct intrafund receipts (from funds within same fund group):	
Trust fund intrafund receipts .....	-6.3
Federal fund intrafund receipts .....	-37.8
Subtotal, intrafund receipts .....	-44.1
Total Trust funds and Federal Funds cash income .....	3,367.5
Deduct other offsetting receipts:	
Trust fund receipts from Federal funds:	
Interest in receipt accounts .....	-188.0
General fund payments to Medicare Parts B and D .....	-225.2
Employing agencies' payments for pensions, Social Security, and Medicare .....	-68.4
General fund payments for unfunded liabilities of Federal employees' retirement funds .....	-93.1
Transfer of taxation of Social Security and RRB benefits to OASDI, HI, and RRB .....	-38.7
Other receipts from Federal funds .....	-135.1
Subtotal, Trust fund receipts from Federal funds .....	-748.4
Federal fund receipts from Trust funds .....	-2.7
Proprietary receipts .....	-305.3
Offsetting governmental receipts .....	-7.6
Subtotal, offsetting receipts .....	-1,064.1
Unified budget receipts .....	2,303.5

Note: Offsetting receipts are included in cash income for each fund group, but are deducted from outlays in the unified budget.

outgo during the year, and the end-of-year balance. Income and outgo are divided between transactions with the public and transactions with Federal funds. Receipts from Federal funds are divided between interest and other interfund receipts.

The definitions of income and outgo in this table differ from those in Table 28-1 in one important way. Trust fund collections that are offset against outgo (as offsetting collections) within expenditure accounts instead of being deposited in separate receipt accounts are classified as income in this table, but not in Table 28-1. This classification is consistent with the definitions of income and outgo for trust funds used elsewhere in the budget. It has the effect of increasing both income and outgo by the amount of the offsetting collections. The difference was approximately \$67 billion in 2011. Table 28-3, therefore, provides a more complete summary of trust fund income and outgo.

The trust funds group is expected to have large and growing surpluses over the projection period. As a consequence, trust fund balances are estimated to grow substantially, continuing a trend that has persisted over the past several decades.<sup>11</sup> The size of the anticipated balanc-

<sup>11</sup> Because of the economic downturn, Social Security trust fund collections from the public (payroll taxes) fell well below Social Security benefit payments in 2010 and 2011; however, because of interest earnings on trust fund investments, Social Security trust fund balances continued to grow in both years. Social Security trust fund balances are expected to continue to grow (although at generally diminishing rates) throughout the 5-year budget window.

**Table 28-3. INCOME, OUTGO, AND BALANCES OF TRUST FUNDS GROUP**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
Balance, start of year .....	4,238.8	4,297.7	4,400.6	4,505.9	4,615.3	4,750.9	4,886.1
Adjustments .....	-38.1	*	.....	.....	.....	.....	.....
Total balance, start of year .....	4,200.7	4,297.7	4,400.6	4,505.9	4,615.3	4,750.9	4,886.1
Income:							
Governmental receipts .....	874.7	899.8	1,021.9	1,104.3	1,174.5	1,250.4	1,313.7
Offsetting governmental receipts .....	*	*	1.2	5.4	8.2	6.1	2.0
Proprietary receipts .....	124.8	130.3	147.5	165.1	172.3	180.7	192.5
Receipts from Federal funds:							
Interest .....	189.7	182.1	175.0	172.2	173.6	176.7	184.2
Other .....	607.3	640.7	616.1	597.3	623.7	664.2	692.2
Subtotal, income .....	1,796.5	1,853.0	1,961.8	2,044.4	2,152.4	2,278.2	2,384.6
Outgo (-):							
To the public .....	-1,698.2	-1,752.7	-1,852.1	-1,933.9	-2,015.7	-2,141.9	-2,232.8
To Federal funds .....	-1.3	-1.1	-1.1	-1.1	-1.1	-1.2	-1.3
Subtotal, outgo .....	-1,699.5	-1,753.8	-1,853.2	-1,935.0	-2,016.8	-2,143.1	-2,234.1
Change in fund balance:							
Surplus or deficit (-):							
Excluding interest .....	-92.7	-82.9	-66.3	-62.9	-38.0	-41.5	-33.7
Interest from Federal funds .....	189.7	182.1	175.0	172.2	173.6	176.7	184.2
Subtotal, surplus or deficit (-) .....	97.0	99.2	108.7	109.4	135.6	135.2	150.5
Borrowing/Transfers/lapses (net) .....	-*	3.3	-3.3	.....	.....	.....	.....
Subtotal, change in fund balance .....	-*	3.3	-3.3	.....	.....	.....	.....
Balance, end of year .....	4,297.7	4,400.6	4,505.9	4,615.3	4,750.9	4,886.1	5,036.6

NOTE: In contrast to table 28-1, income also includes income that is offset within expenditure accounts as offsetting collections, instead of being deposited in receipt accounts.

es is unprecedented and results mainly from changes in the way some trust funds (primarily Social Security and the Federal retirement funds) are financed.

Because of these changes and economic growth (both real and inflationary), trust fund balances increased from \$205 billion in 1982 to \$4.3 trillion in 2011. The current balances are estimated to increase by approximately 17 percent by the year 2017, rising to \$5.0 trillion. Almost all of these balances are invested in Treasury securities and earn interest. The balances represent the value, in current dollars, of (1) taxes and fees received by the Government and dedicated to particular programs that have not yet been spent and (2) intragovernmental payments (from the general fund and from agencies) to the trust funds that have not yet been spent.

Until the 1980s, most trust funds operated on a pay-as-you-go basis as distinct from a pre-funded basis. Taxes and fees were set at levels sufficient to finance current program expenditures and administrative expenses, and to maintain balances generally equal to one year's worth of expenditures (to provide for unexpected events). As a result, trust fund balances tended to grow at about the same rate as the fund's annual expenditures.

For some of the larger trust funds, pay-as-you-go financing was replaced in the 1980s by full or partial advance funding. The Social Security Amendments of 1983 raised payroll taxes above the levels necessary to finance current expenditures. Similarly, in 1985, a new system took

effect that funded military retirement benefits on a full accrual basis and, in 1986, full accrual funding of retirement benefits was mandated for Federal civilian employees hired after December 31, 1983. The two retirement programs now require Federal agencies and employees together to pay the trust funds that disburse Federal civilian and military retirement benefits an amount equal to those accruing retirement benefits. Since many years will pass between the time when benefits are earned (or accrued) and when they are paid, the trust funds will accumulate substantial balances over time.

From the perspective of the trust fund, these balances represent the value, in today's dollars, of taxes, fees, and other income that the trust fund has received in the past for the purpose of funding future benefits and services. Trust fund assets held in Treasury bonds are legal claims on the Treasury, similar to bonds issued to the public. Like all other fund assets, these are available to the fund for future benefit payments and other expenditures.

From the perspective of the Government as a whole, the trust fund balances do not represent net additions to the Government's balance sheet. The trust fund balances are assets of the agencies responsible for administering the trust fund programs. The trust fund balances are also liabilities of the Treasury. These assets and liabilities cancel each other out in the government-wide balance sheet. When trust fund holdings are redeemed to fund the payment of benefits, the Department of the Treasury finances



the expenditure in the same way as any other Federal expenditure—by using current receipts if the unified budget is in surplus or by borrowing from the public if it is in deficit. Therefore, the existence of large trust fund balances, while representing a legal claim on the Treasury, does not, by itself, determine the Government's ability to pay benefits. From an economic standpoint, the Government is able to pre-fund benefits only by increasing saving and investment in the economy as a whole, which increases future national income and, as a result, strengthens the Nation's ability to support future benefits. This can be accomplished by simultaneously running trust fund surpluses while maintaining an unchanged Federal fund surplus or deficit, so that the trust fund surplus reduces the unified budget deficit or increases the unified budget surplus.

This demonstrates the need to follow a fiscal policy that is consistent with the Government's obligation to repay the bonds when needed to pay benefits in the future. This means saving more now before the obligations become due and pursuing policies that will increase long-run growth and national income. Otherwise, the Nation will have fewer resources available in the future to meet its obligations and will face more difficult choices among cutting spending, raising taxes, or borrowing from private credit markets.

Table 28–4 shows estimates of income, outgo, and balances for 2011 through 2017 for the major trust funds. With the exception of transactions between trust funds, the data for the individual trust funds are conceptually the same as the data in Table 28–3 for the trust funds group. As explained previously, transactions between trust funds are shown as outgo of the fund that makes the payment and as income of the fund that collects it in the data for an individual trust fund, but the collections are offset against outgo in the data for the trust fund group as a whole. A brief description of the funding sources for the major trust funds is given below; additional information for these and other trust funds can be found in the Status of Funds tables in the *Budget Appendix*.

- **Social Security Trust Funds:** The Social Security trust funds are funded by payroll taxes from employers and employees, interest earnings on trust fund balances, Federal agency payments as employers, and a portion of the income taxes paid on Social Security benefits.
- **Medicare Trust Funds:** Like the Social Security trust funds, the Medicare Hospital Insurance (HI) trust fund is funded by payroll taxes from employers and employees, interest earnings on trust fund bal-

ances, Federal agency payments as employers, and a portion of the income taxes paid on Social Security benefits. In addition, the HI trust fund receives transfers from the general fund of the Treasury for certain HI benefits. The other Medicare trust fund finances Part B (outpatient and physician benefits) and Part D (prescription drug benefits). This fund receives premium payments from covered individuals and transfers from the general fund of the Treasury for that portion of Part B and Part D costs not covered by premiums or, for Part D, transfers from States. In addition, like the Social Security and all trust funds, these two trust funds receive interest earnings on any trust fund balances.

- **Unemployment Trust Fund:** The Unemployment Trust Fund is funded by taxes on employers, payments from Federal agencies, taxes on certain employees, and interest earnings on trust fund balances. In addition, as noted above, some trust funds have the authority to borrow from the general fund of the Treasury and in 2011 the Unemployment Trust Fund borrowed \$21.7 billion from the general fund. This borrowed amount is repayable with interest and allowed the trust fund to meet its legal obligations to pay benefits and make repayable advances to States.
- **Civilian and military retirement trust funds:** The Civil Service Retirement and Disability Fund is funded by employee and agency payments, general fund transfers for the unfunded portion of retirement costs, and interest earnings on trust fund balances. The Military Retirement Fund is funded by payments from the Department of Defense, general fund transfers for unfunded retirement costs, and interest earnings on trust fund balances.

As noted, trust funds are funded by a combination of payments from the public and payments from Federal funds, including payments directly from the general fund and payments from agency appropriations. Just as the funding sources for trust funds are specified in law, the uses for trust fund balances are specified in law.

Table 28–5 shows income, outgo, and balances of five Federal funds—three revolving funds and two special funds. These five funds are similar to trust funds in that they are financed by dedicated receipts, the excess of income over outgo is invested in Treasury securities, the interest earnings add to fund balances, and the balances remain available to cover future expenditures. The table is illustrative of the Federal funds group, which includes many other revolving funds and special funds.

**Table 28-4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Airport and Airway Trust Fund</b>							
Balance, start of year .....	9.4	10.3	10.1	9.5	10.0	11.3	13.3
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	9.4	10.3	10.1	9.5	10.0	11.3	13.3
Income:							
Governmental receipts .....	11.5	11.6	12.8	13.3	13.9	14.6	15.2
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	.....	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from Federal funds:							
Interest .....	0.2	0.2	0.2	0.2	0.3	0.4	0.5
Other .....	0.1	*	*	*	*	*	*
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	11.8	11.9	13.1	13.6	14.3	15.1	15.8
Outgo (-):							
To the public .....	-10.9	-12.2	-13.7	-13.1	-13.1	-13.0	-13.3
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-10.9	-12.2	-13.7	-13.1	-13.1	-13.0	-13.3
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	0.7	-0.5	-0.7	0.3	0.9	1.7	2.0
Interest .....	0.2	0.2	0.2	0.2	0.3	0.4	0.5
Subtotal, surplus or deficit(-) .....	0.9	-0.3	-0.5	0.5	1.2	2.0	2.6
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	0.9	-0.3	-0.5	0.5	1.2	2.0	2.6
Balance, end of year .....	10.3	10.1	9.5	10.0	11.3	13.3	15.9
<b>Civil Service Retirement and Disability Fund</b>							
Balance, start of year .....	780.4	803.8	819.2	830.2	844.7	858.1	870.7
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	780.4	803.8	819.2	830.2	844.7	858.1	870.7
Income:							
Governmental receipts .....	4.0	4.3	5.0	5.7	6.6	6.7	6.9
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Federal funds:							
Interest .....	35.5	33.9	32.2	31.8	31.8	32.3	33.4
Other .....	54.5	56.9	57.1	57.9	59.2	60.9	62.6
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	94.0	95.1	94.2	95.4	97.6	100.0	102.8
Outgo (-):							
To the public .....	-70.5	-79.8	-83.2	-80.9	-84.2	-87.4	-90.7
Payments to other funds .....	_*	_*	_*	_*	_*	_*	_*
Subtotal, outgo .....	-70.5	-79.8	-83.2	-80.9	-84.2	-87.4	-90.7
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-12.0	-18.6	-21.1	-17.3	-18.4	-19.8	-21.3
Interest .....	35.5	33.9	32.2	31.8	31.8	32.3	33.4
Subtotal, surplus or deficit(-) .....	23.5	15.4	11.0	14.5	13.4	12.5	12.1
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	23.5	15.4	11.0	14.5	13.4	12.5	12.1
Balance, end of year .....	803.8	819.2	830.2	844.7	858.1	870.7	882.8



**Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Federal Employees Health Benefits Fund</b>							
Balance, start of year .....	16.2	19.1	20.3	20.4	20.1	19.8	19.8
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	16.2	19.1	20.3	20.4	20.1	19.8	19.8
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	12.8	13.0	14.0	14.9	16.1	17.3	18.5
Receipts from Federal funds:							
Interest .....	0.3	0.4	0.3	0.3	0.4	0.5	0.7
Other .....	30.5	31.3	33.0	34.9	37.1	39.7	42.4
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	43.6	44.7	47.3	50.1	53.5	57.5	61.6
Outgo (-):							
To the public .....	-40.6	-43.5	-47.3	-50.3	-53.7	-57.5	-61.4
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-40.6	-43.5	-47.3	-50.3	-53.7	-57.5	-61.4
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	2.7	0.9	-0.2	-0.5	-0.6	-0.5	-0.5
Interest .....	0.3	0.4	0.3	0.3	0.4	0.5	0.7
Subtotal, surplus or deficit(-) .....	3.0	1.2	*	-0.3	-0.3	-*	0.2
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	3.0	1.2	*	-0.3	-0.3	-*	0.2
Balance, end of year .....	19.1	20.3	20.4	20.1	19.8	19.8	20.0
<b>Foreign Military Sales Trust Fund</b>							
Balance, start of year .....	17.6	18.5	15.6	12.5	12.7	13.3	13.9
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	17.6	18.5	15.6	12.5	12.7	13.3	13.9
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	23.9	25.5	27.7	29.5	27.6	25.6	24.0
Receipts from Federal funds:							
Interest .....	.....	.....	.....	.....	.....	.....	.....
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	23.9	25.5	27.7	29.5	27.6	25.6	24.0
Outgo (-):							
To the public .....	-23.0	-28.3	-30.9	-29.3	-27.0	-25.0	-23.3
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-23.0	-28.3	-30.9	-29.3	-27.0	-25.0	-23.3
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	0.9	-2.8	-3.1	0.3	0.6	0.6	0.7
Interest .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, surplus or deficit(-) .....	0.9	-2.8	-3.1	0.3	0.6	0.6	0.7
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	0.9	-2.8	-3.1	0.3	0.6	0.6	0.7
Balance, end of year .....	18.5	15.6	12.5	12.7	13.3	13.9	14.7

**Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Medicare: Hospital Insurance (HI) Trust Fund</b>							
Balance, start of year .....	280.1	245.7	226.3	202.6	181.1	169.4	159.2
Adjustments .....	-1.3	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	278.9	245.7	226.3	202.6	181.1	169.4	159.2
Income:							
Governmental receipts .....	189.1	203.2	214.6	226.9	240.2	257.8	273.6
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	8.7	9.4	9.6	9.8	9.9	10.0	10.2
Receipts from Federal funds:							
Interest .....	12.9	11.3	10.1	8.9	7.9	7.4	7.1
Other .....	22.8	24.5	27.0	29.0	31.9	35.0	38.4
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	233.5	248.3	261.2	274.6	289.9	310.2	329.3
Outgo (-):							
To the public .....	-266.6	-267.7	-285.0	-296.1	-301.6	-320.4	-330.9
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-266.6	-267.7	-285.0	-296.1	-301.6	-320.4	-330.9
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-46.1	-30.7	-33.8	-30.3	-19.5	-17.6	-8.7
Interest .....	12.9	11.3	10.1	8.9	7.9	7.4	7.1
Subtotal, surplus or deficit(-) .....	-33.2	-19.4	-23.7	-21.5	-11.7	-10.2	-1.6
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	-33.2	-19.4	-23.7	-21.5	-11.7	-10.2	-1.6
Balance, end of year .....	245.7	226.3	202.6	181.1	169.4	159.2	157.7
<b>Medicare: Supplementary Medical Insurance (SMI) Trust Fund</b>							
Balance, start of year .....	72.0	72.8	67.4	68.6	73.4	78.3	77.2
Adjustments .....	*	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	72.0	72.8	67.4	68.6	73.4	78.3	77.2
Income:							
Governmental receipts .....	1.9	2.9	2.8	3.0	3.0	3.0	3.9
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	71.0	74.0	88.8	102.4	110.5	119.6	131.5
Receipts from Federal funds:							
Interest .....	3.2	3.0	2.6	2.7	3.1	3.5	3.8
Other .....	226.8	214.9	250.6	271.1	283.8	308.4	320.4
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	302.9	294.8	344.8	379.2	400.4	434.5	459.6
Outgo (-):							
To the public .....	-302.1	-300.2	-343.6	-374.4	-395.5	-435.5	-452.1
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-302.1	-300.2	-343.6	-374.4	-395.5	-435.5	-452.1
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-2.4	-8.3	-1.4	2.1	1.7	-4.5	3.6
Interest .....	3.2	3.0	2.6	2.7	3.1	3.5	3.8
Subtotal, surplus or deficit(-) .....	0.8	-5.4	1.2	4.8	4.8	-1.1	7.5
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	0.8	-5.4	1.2	4.8	4.8	-1.1	7.5
Balance, end of year .....	72.8	67.4	68.6	73.4	78.3	77.2	84.6

**Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Military Retirement Fund</b>							
Balance, start of year .....	318.6	368.6	429.2	486.8	544.2	604.6	664.1
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	318.6	368.6	429.2	486.8	544.2	604.6	664.1
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Federal funds:							
Interest .....	17.7	17.1	17.2	17.5	19.7	22.0	25.7
Other .....	87.1	92.1	95.0	96.2	98.6	101.3	104.0
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	104.9	109.2	112.1	113.7	118.3	123.4	129.7
Outgo:							
To the public .....	-54.9	-48.5	-54.6	-56.3	-57.9	-63.9	-61.4
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-54.9	-48.5	-54.6	-56.3	-57.9	-63.9	-61.4
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	32.3	43.5	40.4	39.9	40.7	37.4	42.6
Interest .....	17.7	17.1	17.2	17.5	19.7	22.0	25.7
Subtotal, surplus or deficit(-) .....	50.0	60.7	57.6	57.4	60.4	59.5	68.3
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	50.0	60.7	57.6	57.4	60.4	59.5	68.3
Balance, end of year .....	368.6	429.2	486.8	544.2	604.6	664.1	732.4
<b>Railroad Retirement Trust Funds</b>							
Balance, start of year .....	21.6	18.6	17.9	16.4	14.9	13.6	11.8
Adjustments .....	-1.5	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	20.1	18.6	17.9	16.4	14.9	13.6	11.8
Income:							
Governmental receipts .....	4.2	4.5	4.8	4.9	5.2	5.4	5.6
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	0.1	1.4	0.6	0.7	0.7	0.7	0.7
Receipts from Federal funds:							
Interest .....	0.1	*	*	*	0.1	0.1	0.1
Other .....	0.8	0.8	0.7	0.7	0.7	0.8	0.8
Receipts from Trust funds .....	4.6	4.4	4.3	4.7	4.9	4.6	5.1
Subtotal, income .....	9.8	11.1	10.5	11.1	11.6	11.5	12.3
Outgo:							
To the public .....	-11.2	-11.7	-12.1	-12.4	-12.8	-13.1	-13.4
Payments to other funds .....	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Subtotal, outgo .....	-11.3	-11.8	-12.2	-12.6	-12.9	-13.3	-13.6
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-1.6	-0.7	-1.7	-1.5	-1.4	-1.8	-1.4
Interest .....	0.1	*	*	*	0.1	0.1	0.1
Subtotal, surplus or deficit(-) .....	-1.5	-0.7	-1.7	-1.4	-1.4	-1.8	-1.4
Borrowing/Transfers/lapses (net) .....	0.1	-*	0.2	.....	.....	.....	.....
Total, change in fund balance .....	-1.4	-0.8	-1.5	-1.4	-1.4	-1.8	-1.4
Balance, end of year .....	18.6	17.9	16.4	14.9	13.6	11.8	10.4

**Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Social Security: Old-Age, Survivors, and Disability Insurance (OASDI) Trust Funds</b>							
Balance, start of year .....	2,585.5	2,653.5	2,715.7	2,754.4	2,781.9	2,801.6	2,825.9
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	2,585.5	2,653.5	2,715.7	2,754.4	2,781.9	2,801.6	2,825.9
Income:							
Governmental receipts .....	565.8	572.1	677.4	742.4	780.9	832.8	881.1
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Receipts from Federal funds:							
Interest .....	116.0	112.6	108.8	106.8	106.2	106.0	107.8
Other .....	129.0	167.5	89.9	64.1	69.2	74.7	80.3
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	810.9	852.3	876.3	913.4	956.3	1,013.6	1,069.3
Outgo:							
To the public .....	-737.2	-785.1	-832.3	-880.1	-930.9	-983.7	-1,040.0
Payments to other funds .....	-5.7	-5.4	-5.3	-5.7	-5.8	-5.6	-6.1
Subtotal, outgo .....	-742.9	-790.5	-837.6	-885.8	-936.7	-989.3	-1,046.1
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-48.0	-50.7	-70.1	-79.2	-86.6	-81.7	-84.6
Interest .....	116.0	112.6	108.8	106.8	106.2	106.0	107.8
Subtotal, surplus or deficit(-) .....	68.0	61.9	38.7	27.6	19.6	24.3	23.2
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	68.0	61.9	38.7	27.6	19.6	24.3	23.2
Balance, end of year .....	2,653.5	2,715.7	2,754.4	2,781.9	2,801.6	2,825.9	2,849.0
<b>Transportation Trust Fund</b>							
Balance, start of year .....	29.2	21.6	11.5	35.7	55.1	68.9	77.7
Adjustments .....	*	*	.....	.....	.....	.....	.....
Total balance, start of year .....	29.2	21.6	11.5	35.7	55.1	68.9	77.7
Income:							
Governmental receipts .....	36.9	38.7	39.3	40.2	41.2	42.1	43.0
Offsetting governmental receipts .....	*	*	*	*	*	*	*
Proprietary receipts .....	*	0.1	.....	.....	.....	.....	.....
Receipts from Federal funds:							
Interest .....	*	.....	.....	.....	.....	.....	.....
Other .....	0.1	0.3	38.8	38.8	38.8	38.8	38.8
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	37.1	39.1	78.1	79.0	80.0	80.9	81.9
Outgo:							
To the public .....	-44.7	-49.2	-53.9	-59.6	-66.2	-72.1	-78.0
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-44.7	-49.2	-53.9	-59.6	-66.2	-72.1	-78.0
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-7.6	-10.1	24.2	19.4	13.8	8.8	3.8
Interest .....	*	.....	.....	.....	.....	.....	.....
Subtotal, surplus or deficit(-) .....	-7.6	-10.1	24.2	19.4	13.8	8.8	3.8
Borrowing/Transfers/lapses (net) .....	-*	-*	-*	.....	.....	.....	.....
Total, change in fund balance .....	-7.6	-10.1	24.2	19.4	13.8	8.8	3.8
Balance, end of year .....	21.6	11.5	35.7	55.1	68.9	77.7	81.6

**Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Unemployment Trust Fund</b>							
Balance, start of year .....	20.0	-26.7	-27.2	-30.4	-28.7	-8.8	17.9
Adjustments .....	-35.3	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	-15.3	-26.7	-27.2	-30.4	-28.7	-8.8	17.9
Income:							
Governmental receipts .....	56.2	57.1	57.9	59.3	74.9	79.3	75.3
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	1.3	*	*	0.9	0.7	0.5	0.4
Receipts from Federal funds:							
Interest .....	0.7	0.5	0.4	0.5	0.5	0.6	0.9
Other .....	51.9	49.1	20.5	1.1	1.0	1.0	0.9
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	110.0	106.7	78.8	61.8	77.1	81.5	77.6
Outgo:							
To the public .....	-121.4	-110.8	-78.8	-60.1	-57.2	-54.9	-52.8
Payments to Federal funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-121.4	-110.8	-78.8	-60.1	-57.2	-54.9	-52.8
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-12.1	-4.6	-0.4	1.2	19.5	26.0	23.9
Interest .....	0.7	0.5	0.4	0.5	0.5	0.6	0.9
Subtotal, surplus or deficit(-) .....	-11.4	-4.1	.....	1.7	19.9	26.6	24.8
Borrowing/Transfers/lapses (net) <sup>1</sup> .....	-*	3.7	-3.2	.....	.....	.....	.....
Total, change in fund balance .....	-11.4	-0.4	-3.2	1.7	19.9	26.6	24.8
Balance, end of year .....	-26.7	-27.2	-30.4	-28.7	-8.8	17.9	42.7
<b>Veterans Life Insurance Funds</b>							
Balance, start of year .....	10.2	9.5	8.8	8.1	7.3	6.5	5.7
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	10.2	9.5	8.8	8.1	7.3	6.5	5.7
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Offsetting governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Receipts from Federal funds:							
Interest .....	0.5	0.5	0.4	0.4	0.3	0.3	0.2
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	0.9	0.8	0.7	0.6	0.5	0.5	0.4
Outgo:							
To the public .....	-1.5	-1.5	-1.4	-1.4	-1.3	-1.3	-1.2
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-1.5	-1.5	-1.4	-1.4	-1.3	-1.3	-1.2
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-1.2	-1.2	-1.2	-1.1	-1.1	-1.1	-1.0
Interest .....	0.5	0.5	0.4	0.4	0.3	0.3	0.2
Subtotal, surplus or deficit(-) .....	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8
Balance, end of year .....	9.5	8.8	8.1	7.3	6.5	5.7	4.9



**Table 28–4. INCOME, OUTGO, AND BALANCE OF MAJOR TRUST FUNDS—Continued**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Other Trust Funds</b>							
Balance, start of year .....	78.1	82.4	85.7	91.2	98.4	114.2	128.8
Adjustments .....	-0.1	*	.....	.....	.....	.....	.....
Total balance, start of year .....	78.1	82.4	85.7	91.2	98.4	114.2	128.8
Income:							
Governmental receipts .....	5.0	5.3	7.3	8.5	8.6	8.7	9.1
Offsetting governmental receipts .....	*	*	1.2	5.4	8.2	6.1	2.0
Proprietary receipts .....	6.5	6.4	6.3	6.4	6.5	6.6	6.7
Receipts from Federal funds:							
Interest .....	2.7	2.6	2.8	3.1	3.4	3.6	3.8
Other .....	3.6	3.5	3.5	3.5	3.5	3.6	3.7
Receipts from Trust funds .....	*	*	0.1	0.1	0.1	0.1	0.1
Subtotal, income .....	17.7	17.9	21.2	27.0	30.4	28.8	25.5
Outgo:							
To the public .....	-13.4	-14.2	-15.4	-19.8	-14.5	-14.0	-14.3
Payments to other funds .....	-*	-*	-0.1	-0.1	-0.1	-0.1	-0.2
Subtotal, outgo .....	-13.4	-14.2	-15.5	-19.8	-14.6	-14.1	-14.5
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	1.6	1.1	2.9	4.1	12.4	11.0	7.2
Interest .....	2.7	2.6	2.8	3.1	3.4	3.6	3.8
Subtotal, surplus or deficit(-) .....	4.3	3.7	5.8	7.2	15.8	14.7	11.0
Borrowing/Transfers/lapses (net) .....	*	-0.4	-0.3	.....	.....	.....	.....
Total, change in fund balance .....	4.3	3.3	5.5	7.2	15.8	14.7	11.0
Balance, end of year .....	82.4	85.7	91.2	98.4	114.2	128.8	139.9

<sup>1</sup> For 2012, the Unemployment Trust Fund is expected to borrow a net amount of \$3.7 billion from the general fund of the Treasury. For 2013, the Trust Fund is expected to repay the general fund a net amount of \$3.2 billion

**Table 28–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Abandoned Mine Reclamation Fund</b>							
Balance, start of year .....	2.6	2.7	2.8	2.8	2.8	2.8	2.8
Adjustments .....							
Total balance, start of year .....	2.6	2.7	2.8	2.8	2.8	2.8	2.8
Income:							
Governmental receipts .....	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Proprietary receipts .....	*						
Receipts from Federal funds:							
Interest .....	0.1	0.1	0.1	*	0.1	0.1	0.1
Other .....							
Receipts from Trust funds .....							
Subtotal, income .....	0.3	0.3	0.3	0.2	0.3	0.3	0.3
Outgo (–):							
To the public .....	–0.2	–0.2	–0.3	–0.3	–0.3	–0.3	–0.3
Payments to other funds .....							
Subtotal, outgo .....	–0.2	–0.2	–0.3	–0.3	–0.3	–0.3	–0.3
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest .....	*	*	–*	–*	–0.1	–0.1	–0.1
Interest .....	0.1	0.1	0.1	*	0.1	0.1	0.1
Subtotal, surplus or deficit(–) .....	0.1	0.1	*	–*		–*	–*
Borrowing/Transfers/lapses (net) .....							
Total, change in fund balance .....	0.1	0.1	*	–*		–*	–*
Balance, end of year .....	2.7	2.8	2.8	2.8	2.8	2.8	2.8
<b>Credit Union Share Insurance Fund</b>							
Balance, start of year .....	9.3	10.7	10.7	10.9	11.1	11.7	12.5
Adjustments .....							
Total balance, start of year .....	9.3	10.7	10.7	10.9	11.1	11.7	12.5
Income:							
Governmental receipts .....							
Proprietary receipts .....	11.6	0.5	0.5	0.5	0.7	0.7	0.7
Receipts from Federal funds:							
Interest .....	0.2	0.2	0.2	0.3	0.4	0.5	0.6
Other .....							
Receipts from Trust funds .....							
Subtotal, income .....	11.8	0.7	0.7	0.8	1.1	1.3	1.3
Outgo (–):							
To the public .....	–10.3	–0.7	–0.6	–0.5	–0.5	–0.5	–0.5
Payments to other funds .....							
Subtotal, outgo .....	–10.3	–0.7	–0.6	–0.5	–0.5	–0.5	–0.5
Change in fund balance:							
Surplus or deficit(–):							
Excluding interest .....	1.3	–0.2	–0.1	–0.1	0.2	0.2	0.2
Interest .....	0.2	0.2	0.2	0.3	0.4	0.5	0.6
Subtotal, surplus or deficit(–) .....	1.5	–*	0.1	0.3	0.6	0.7	0.8
Borrowing/Transfers/lapses (net) .....							
Total, change in fund balance .....	1.5	–*	0.1	0.3	0.6	0.7	0.8
Balance, end of year .....	10.7	10.7	10.9	11.1	11.7	12.5	13.2

**Table 28–5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS—Continued**  
(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Department of Defense Medicare-Eligible Retiree Health Care Fund</b>							
Balance, start of year .....	164.6	186.1	201.0	209.5	217.7	226.4	237.0
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	164.6	186.1	201.0	209.5	217.7	226.4	237.0
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Federal funds:							
Interest .....	9.0	7.0	7.4	7.7	8.1	9.9	10.6
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	21.1	17.9	10.8	10.9	11.5	12.1	12.7
Subtotal, income .....	30.1	24.9	18.2	18.6	19.6	22.0	23.3
Outgo (-):							
To the public .....	-8.6	-10.0	-9.7	-10.5	-10.9	-11.4	-11.9
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-8.6	-10.0	-9.7	-10.5	-10.9	-11.4	-11.9
Change in fund balance:							
Surplus or deficit(-): .....	.....	.....	.....	.....	.....	.....	.....
Excluding interest .....	12.5	7.9	1.1	0.4	0.6	0.7	0.8
Interest .....	9.0	7.0	7.4	7.7	8.1	9.9	10.6
Subtotal, surplus or deficit(-) .....	21.5	14.9	8.5	8.1	8.7	10.6	11.4
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	21.5	14.9	8.5	8.1	8.7	10.6	11.4
Balance, end of year .....	186.1	201.0	209.5	217.7	226.4	237.0	248.4
<b>Overseas Private Investment Corporation Noncredit Account</b>							
Balance, start of year .....	4.9	5.1	5.2	5.3	5.5	5.7	5.9
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	4.9	5.1	5.2	5.3	5.5	5.7	5.9
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	*	*	*	*	*	*	*
Receipts from Federal funds:							
Interest .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other .....	*	*	*	*	*	*	*
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Outgo (-):							
To the public .....	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Change in fund balance:							
Surplus or deficit(-): .....	.....	.....	.....	.....	.....	.....	.....
Excluding interest .....	*	*	*	*	*	*	*
Interest .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Subtotal, surplus or deficit(-) .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Borrowing/Transfers/lapses (net) .....	-*	-0.1	-0.1	.....	.....	.....	.....
Total, change in fund balance .....	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Balance, end of year .....	5.1	5.2	5.3	5.5	5.7	5.9	6.1

Table 28-5. INCOME, OUTGO, AND BALANCE OF MAJOR FEDERAL FUNDS—Continued

(In billions of dollars)

	2011 Actual	Estimate					
		2012	2013	2014	2015	2016	2017
<b>Pension Benefit Guaranty Corporation Fund</b>							
Balance, start of year .....	14.4	15.6	15.8	17.4	19.1	21.9	24.0
Adjustments .....	.....	.....	.....	.....	.....	.....	.....
Total balance, start of year .....	14.4	15.6	15.8	17.4	19.1	21.9	24.0
Income:							
Governmental receipts .....	.....	.....	.....	.....	.....	.....	.....
Proprietary receipts .....	5.8	5.9	7.8	8.8	10.7	10.9	11.1
Receipts from Federal funds:							
Interest .....	1.3	0.8	0.9	0.9	1.0	1.1	1.2
Other .....	.....	.....	.....	.....	.....	.....	.....
Receipts from Trust funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, income .....	7.1	6.8	8.7	9.7	11.7	12.0	12.3
Outgo (-):							
To the public .....	-5.9	-6.5	-7.1	-8.0	-8.9	-10.0	-10.9
Payments to other funds .....	.....	.....	.....	.....	.....	.....	.....
Subtotal, outgo .....	-5.9	-6.5	-7.1	-8.0	-8.9	-10.0	-10.9
Change in fund balance:							
Surplus or deficit(-):							
Excluding interest .....	-0.1	-0.6	0.7	0.8	1.8	0.9	0.1
Interest .....	1.3	0.8	0.9	0.9	1.0	1.1	1.2
Subtotal, surplus or deficit(-) .....	1.2	0.2	1.6	1.7	2.8	2.1	1.4
Borrowing/Transfers/lapses (net) .....	.....	.....	.....	.....	.....	.....	.....
Total, change in fund balance .....	1.2	0.2	1.6	1.7	2.8	2.1	1.4
Balance, end of year .....	15.6	15.8	17.4	19.1	21.9	24.0	25.3

## 29. NATIONAL INCOME AND PRODUCT ACCOUNTS

The National Income and Product Accounts (NIPAs) are an integrated set of statistics prepared by the Department of Commerce that measure aggregate U.S. economic activity. Because the NIPAs include Federal transactions and are widely used in economic analysis, it is important to understand the differences between the NIPAs' distinctive presentation of Federal transactions and that of the budget.

The main purpose of the NIPAs is to measure the Nation's total production of goods and services, known as gross domestic product (GDP), and the incomes generated in its production. GDP excludes intermediate production to avoid double counting. Government consumption expenditures along with government gross investment — State and local as well as Federal — are included in GDP as part of final output, together with personal consumption expenditures, gross private domestic investment, and net exports of goods and services (exports minus imports).

Not all government expenditures are counted in GDP. Benefit payments to individuals, grants to State and local governments, subsidies, and interest payments are not purchases of final output and are therefore not included in GDP. However, these transactions are recorded in the NIPA government account that records current receipts and expenditures (including depreciation on government gross investment) because all of these affect the government's claim on economic resources.

Federal transactions are included in the NIPAs as part of the government sector.<sup>1</sup> The Federal subsector is designed to measure certain important economic effects of Federal transactions in a way that is consistent with the conceptual framework of the entire set of integrated accounts. The NIPA Federal subsector is not itself a budget, because it is not a financial plan for proposing, determining, and controlling the fiscal activities of the Government. For example, it omits from its current receipts and current expenditures certain "capital transfers" (such as estate tax receipts and grants to States for capital investment) that are recorded in the budget. These capital transfers are therefore not counted in net Federal Government saving, but are displayed separately to show their effect on net Federal lending or borrowing. NIPA concepts also differ in many other ways from budget concepts, and therefore the NIPA presentation of Federal finances is significantly different from that of the budget.

### Differences between the NIPAs and the Budget

Federal transactions in the NIPAs are measured according to NIPA accounting concepts and as a result they differ from the budget in netting and grossing, timing, and cover-

age. These differences cause current receipts and expenditures in the NIPAs to differ from total receipts and outlays in the budget, albeit by relatively small amounts.<sup>2</sup> Differences in timing and coverage also cause the NIPA measure of net Federal Government saving to differ from the budget surplus or deficit. Unlike timing and coverage differences, netting and grossing differences have equal effects on receipts and expenditures and thus have no effect on net Government saving. The NIPAs also combine transactions into different categories from those used in the budget.

*Netting and grossing differences* arise because the budget records certain transactions as offsets to outlays that are recorded as current receipts in the NIPAs (or vice versa). The budget treats all income that comes to the Government due to its sovereign powers—mainly, but not exclusively, taxes—as governmental receipts. The budget offsets against outlays any income that arises from voluntary business-type transactions with the public. The NIPAs generally follow this concept as well, and income to Government revolving accounts (such as the Government Printing Office) is offset against their expenditures. However, the NIPAs have a narrower definition of "business-type transactions" than does the budget. Rents and royalties, and some regulatory or inspection fees, which are classified as offsets to outlays in the budget, are recorded in the NIPAs as Government receipts (income receipts on assets and current transfer receipts, respectively). The NIPAs include Medicare premiums as Government receipts, while the budget classifies them as business-type transactions (offsetting receipts). In addition, the NIPAs treat the net surplus of Government enterprises, such as the Postal Service, as a component of current receipts.

In the budget, any intragovernmental income paid from one account to another is offset against outlays rather than being recorded as a receipt so that total outlays and receipts measure only transactions with the public. For example, Government contributions for Federal employee social insurance (such as Social Security) are offset against outlays. In contrast, the NIPAs treat the Federal Government like any other employer and show contributions for Federal employee social insurance as expenditures by the employing agencies and as current receipts, rather than offsets against outlays. The NIPAs also display certain transactions that are not recorded explicitly in the budget. For example, unemployment benefits for Federal employees are financed by direct appropriations rather than social insurance contributions. The NIPAs

<sup>1</sup> The NIPA government sector consists of the Federal subsector and a State and local subsector that is a single set of transactions for all U.S. State and local units of government, treated as a consolidated entity.

<sup>2</sup> Over the period 1994–2010, NIPA current expenditures averaged 3.7 percent higher than budget outlays, while NIPA current receipts averaged 3.4 percent higher than budget receipts. Including capital transfers and net investment, NIPA total expenditures averaged 6.4 percent higher than budget outlays, while NIPA total receipts averaged 4.6 percent higher than budget receipts.



impute the social insurance contributions to the expenditures of employing agencies—again, treating the Federal Government like any other employer.

*Timing differences* for receipts occur because the NIPAs generally record business taxes when they accrue, while the budget generally records receipts when they are received. Thus the NIPAs attribute corporations' final settlement payments back to the quarter(s) in which the profits that gave rise to the tax liability occurred. The delay between accrual of liability and Treasury receipt of payment can result in significant timing differences between NIPA and budget measures of receipts for any given accounting period.

Timing differences also occur for expenditures. When the first day of a month falls on a weekend or holiday, monthly benefit checks normally deposited on the first day of the month may be deposited a day or two earlier; the budget then reflects two payments in one month and none the next. As a result, the budget totals occasionally reflect 13 monthly payments in one year and only 11 the next. NIPA expenditure figures always reflect 12 benefit payments per year, giving rise to a timing difference compared to the budget.

*Coverage differences* arise on the expenditure side because of the NIPA treatment of Government investment. The budget includes outlays for Federal investments as they are paid, while the NIPA Federal current account excludes current investments but includes a depreciation charge on past investments ("consumption of general government fixed capital") as part of "current expenditures." The inclusion of depreciation on fixed capital (structures, equipment and software) in current expenditures can be thought of as a proxy for the services that capital renders; i.e., for its contribution to Government output of public services. The depreciation charge is not a full reflection of capital services, however, since it does not include the net return to capital that in a private corporation would appear as interest income or profit. The NIPAs would need to include an imputed interest charge for government capital to assure a fully parallel treatment.

Certain items in the budget are excluded from the NIPA Federal current account because they are related to the acquisition or sale of assets, and not linked to current consumption or income. Examples include Federal grants to State and local governments for capital investment, investment subsidies to business, lump sum payments to amortize the unfunded liability of the Uniformed Services Retiree Health Care Fund and the Postal Service Retiree Health Benefits Fund, and forgiveness of debt owed by foreign governments. Likewise, estate and gift taxes, included in budget receipts, are excluded from NIPA current receipts as being capital transfers. The NIPAs also exclude the proceeds from the sales of non-produced assets such as land. Bonuses paid on Outer Continental Shelf oil leases and proceeds from broadcast spectrum auctions are shown as offsetting receipts in the budget and are deducted from budget outlays. In the NIPAs these transactions are excluded from the Federal current account as an exchange of assets with no current production involved. The NIPAs are not strictly consistent in this interpretation, however, since they do include in total revenues the

taxation of capital gains. The treatment of Government pension plan income and outgo creates a coverage difference. Whereas the budget treats employee payments to these pension plans as governmental receipts, and employer contributions by agencies as offsets to outlays because they are intragovernmental, the NIPAs treat employer contributions as personal income and employee payments as a transfer of income within the household sector, in the same way as it treats contributions to pension plans in the private (household) sector. Likewise, the budget records a Government pension payment to a retired Government employee as an outlay, but under NIPA concepts, no Government expenditure occurs at that time; the payment is treated (like private pension payments) as a transfer of income within the household sector.

Financial transactions such as loan disbursements, loan repayments, loan asset sales, and loan guarantees are excluded from the NIPA current accounts on the grounds that such transactions simply involve an exchange of assets rather than current production, income, or consumption. In contrast, under the Federal Credit Reform Act of 1990, the budget records the estimated subsidy cost of the direct loan or loan guarantee as an outlay at the time when the loan is disbursed. The cash flows with the public are recorded in non-budgetary accounts as a means of financing the budget rather than as budgetary transactions. This treatment recognizes that a Federal direct loan is an exchange of assets with equal value after allowing for the subsidy to the borrower implied by the terms of the loan. It also recognizes the subsidy element in loan guarantees. In the NIPAs current accounts, these subsidies are not recognized. Exclusion from the NIPA current accounts of asset purchases, direct loans, and loan guarantees under the Troubled Asset Relief Program (TARP) and other financial stabilization measures gave rise to the largest differences between budget and NIPA expenditures totals in 2009 through 2011.<sup>3</sup>

The NIPAs, like the budget, include all interest transactions with the public, including interest received by and paid to the loan financing accounts; and both the NIPAs and the budget include administrative costs of credit program operations.

<sup>3</sup> The budgetary treatment of financial stabilization efforts is discussed further in Chapter 4 of this volume, "Financial Stabilization Efforts and their Budgetary Effects." Deposit insurance transactions of the FDIC and NCUA are recorded on a cash basis in the budget but only premiums are included in the NIPAs. Likewise, purchase of GSE preferred stock is recorded in the budget on a cash basis, but is excluded from the NIPA current accounts; GSE preferred stock purchases, however, are shown as capital transfers. Many of the Treasury's financial stabilization programs, including TARP equity purchases, are recorded in the budget on a credit basis, in which the budget recognizes the estimated subsidy value of direct loans, loan guarantees, and equity purchases at the time the loan or purchase is made. This credit treatment extends to equity purchases under the Troubled Asset Relief Program, as well as loans. The NIPAs normally exclude the principal disbursements and repayments of credit transactions as exchanges of assets with no current production involved; the interest and dividend receipts, however, are included in NIPA current receipts as receipts on assets. For certain transactions, the NIPAs recognize the subsidy conveyed by these transactions by recording capital transfers, calculated as the difference between the actual price paid for the financial asset and an estimate of its market value. This capital transfer treatment applies to preferred stock purchases and purchases of warrants for common stock.

Similarly to loan transactions, deposit insurance outlays for resolving failed banks and thrift institutions are excluded from the NIPAs on the grounds that there are no offsetting current income flows from these transactions. This exclusion created a particularly large difference in 2009, because of large outlays to liquidate failed bank deposits. In a similar episode in 1991, this exclusion was the largest difference between the NIPAs and the budget and made NIPA net Government saving a significantly smaller negative number than the budget deficit that year. In subsequent years, as assets acquired from failed financial institutions were sold, these collections tended

to make the budget deficit a smaller negative figure than NIPA net Federal Government saving.

### Federal Sector Current Receipts

Table 29–1 shows the NIPA classification of Federal current receipts in five major categories and four of the subcategories used to measure taxes, which are similar to the budget categories but with some significant differences.

Current tax receipts is the largest category of current receipts, and its personal current taxes subcategory —

**Table 29–1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 2002–2013**

(In billions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Estimate	
											2012	2013
<b>CURRENT RECEIPTS</b>												
Current tax receipts .....	1,095.5	1,056.5	1,115.7	1,346.2	1,538.5	1,632.0	1,511.7	1,188.6	1,282.7	1,473.8	1,630.1	1,932.5
Personal current taxes .....	849.4	781.5	782.3	913.2	1,033.7	1,140.6	1,122.9	904.8	860.8	1,032.2	1,162.7	1,348.3
Taxes on production and imports .....	85.9	88.7	93.4	98.0	99.1	94.4	95.2	96.4	100.2	106.6	113.9	126.9
Taxes on corporate income .....	152.4	177.8	230.8	323.0	393.8	380.8	277.1	169.8	308.3	319.8	337.0	440.9
Taxes from the rest of the world .....	7.7	8.4	9.3	12.0	11.8	16.1	16.4	17.6	13.4	15.1	16.5	16.5
Contributions for government social insurance .....	734.4	753.4	795.4	847.9	892.7	936.6	969.4	947.3	965.7	927.0	930.9	1,058.4
Income receipts on assets .....	21.6	21.6	23.1	24.1	25.2	28.4	32.2	41.8	52.3	56.0	54.5	60.9
Current transfer receipts .....	27.5	24.9	27.8	32.4	38.1	42.2	49.1	69.6	70.0	67.6	68.2	87.3
Current surplus of government enterprises .....	-0.9	4.0	1.7	-3.7	-3.3	-2.3	-3.5	-4.0	-4.9	-10.1	-21.5	-14.8
<b>Total current receipts .....</b>	<b>1,878.1</b>	<b>1,860.3</b>	<b>1,963.7</b>	<b>2,246.9</b>	<b>2,491.2</b>	<b>2,636.9</b>	<b>2,558.9</b>	<b>2,243.4</b>	<b>2,365.9</b>	<b>2,514.2</b>	<b>2,662.2</b>	<b>3,124.3</b>
<b>CURRENT EXPENDITURES</b>												
Consumption expenditures .....	574.1	646.3	704.7	756.5	797.6	831.2	906.7	969.8	1,040.1	1,069.2	1,121.2	1,112.7
Defense .....	367.6	422.9	469.7	507.3	531.3	562.8	616.3	653.5	693.6	710.3	733.8	732.1
Nondefense .....	206.6	223.4	235.0	249.3	266.3	268.4	290.4	316.3	346.5	358.9	387.5	380.6
Current transfer payments .....	1,226.0	1,317.0	1,392.2	1,473.4	1,566.0	1,661.2	1,808.0	2,072.7	2,288.8	2,348.8	2,346.4	2,446.2
Government social benefits .....	905.8	960.5	1,014.9	1,076.9	1,166.6	1,249.5	1,372.3	1,560.3	1,714.1	1,779.6	1,776.7	1,864.8
Grants-in-aid to State and local governments .....	296.7	328.4	347.8	359.6	360.9	373.9	389.8	458.6	520.2	517.5	512.5	523.8
Other transfers to the rest of the world .....	23.5	28.1	29.5	37.0	38.5	37.8	45.9	53.7	54.5	51.8	57.3	57.6
Interest payments .....	234.5	215.7	215.8	242.8	284.4	302.9	314.2	238.6	274.7	323.9	329.8	356.8
Subsidies .....	41.0	48.1	44.6	57.6	54.6	47.6	48.9	56.8	55.2	62.2	70.6	70.7
Wage disbursements less accruals .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total current expenditures .....</b>	<b>2,075.6</b>	<b>2,227.0</b>	<b>2,357.4</b>	<b>2,530.2</b>	<b>2,702.7</b>	<b>2,842.8</b>	<b>3,077.8</b>	<b>3,337.9</b>	<b>3,658.8</b>	<b>3,804.1</b>	<b>3,868.1</b>	<b>3,986.4</b>
<b>Net Federal Government saving .....</b>	<b>-197.5</b>	<b>-366.7</b>	<b>-393.8</b>	<b>-283.4</b>	<b>-211.5</b>	<b>-205.9</b>	<b>-518.9</b>	<b>-1,094.5</b>	<b>-1,292.9</b>	<b>-1,289.9</b>	<b>-1,205.8</b>	<b>-862.1</b>
<b>ADDENDUM: TOTAL RECEIPTS AND EXPENDITURES</b>												
Current receipts .....	1,878.1	1,860.3	1,963.7	2,246.9	2,491.2	2,636.9	2,558.9	2,243.4	2,365.9	2,514.2	2,662.2	3,124.3
Capital transfer receipts .....	26.4	21.7	24.7	24.6	27.7	25.8	28.6	23.3	18.2	6.8	10.7	12.1
<b>Total receipts .....</b>	<b>1,904.5</b>	<b>1,882.1</b>	<b>1,988.3</b>	<b>2,271.4</b>	<b>2,518.9</b>	<b>2,662.7</b>	<b>2,587.5</b>	<b>2,266.7</b>	<b>2,384.1</b>	<b>2,520.9</b>	<b>2,673.0</b>	<b>3,136.4</b>
Current expenditures .....	2,075.6	2,227.0	2,357.4	2,530.2	2,702.7	2,842.8	3,077.8	3,337.9	3,658.8	3,804.1	3,868.1	3,986.4
Net investment:												
Gross government investment:												
Defense .....	55.7	61.4	67.1	73.8	78.6	86.1	98.7	111.0	114.1	111.8	107.5	103.1
Nondefense .....	32.9	33.7	33.5	34.8	40.0	40.1	41.9	45.5	50.1	49.2	51.1	53.2
Less: Consumption of fixed capital:												
Defense .....	60.3	61.4	63.7	67.8	72.0	76.3	81.6	85.8	89.6	95.2	100.5	104.6
Nondefense .....	28.6	29.0	29.7	31.3	33.0	34.8	36.4	38.0	39.0	40.6	42.0	43.3
Capital transfer payments .....	45.2	51.3	62.2	83.7	69.5	69.4	90.7	268.3	177.5	134.9	164.1	139.9
Net purchases of nonproduced assets .....	0.3	0.1	0.1	-0.7	-0.3	-13.9	-10.0	-16.6	0.1	-0.2	-1.2	-1.4
<b>Total expenditures .....</b>	<b>2,120.8</b>	<b>2,283.0</b>	<b>2,427.0</b>	<b>2,622.7</b>	<b>2,785.5</b>	<b>2,913.5</b>	<b>3,181.1</b>	<b>3,622.3</b>	<b>3,872.0</b>	<b>3,964.1</b>	<b>4,047.2</b>	<b>4,133.2</b>
<b>Net lending or net borrowing (-) .....</b>	<b>-216.3</b>	<b>-400.9</b>	<b>-438.7</b>	<b>-351.3</b>	<b>-266.6</b>	<b>-250.8</b>	<b>-593.6</b>	<b>-1,355.6</b>	<b>-1,487.9</b>	<b>-1,443.1</b>	<b>-1,374.2</b>	<b>-996.8</b>

composed primarily of the individual income tax — is the largest single subcategory. The NIPAs' taxes on corporate income subcategory differs in classification from the corresponding budget category primarily because the NIPAs include the deposit of earnings of the Federal Reserve System as corporate income taxes, while the budget treats these collections as miscellaneous receipts. (The timing difference between the NIPAs and the budget is especially large for corporate receipts.) The taxes on production and imports subcategory is composed of excise taxes and customs duties.

Contributions for Government social insurance is the second largest category of current receipts. It differs from the corresponding budget category primarily because: (1) the NIPAs include Federal employer contributions for social insurance as a government receipt, while the budget offsets these contributions against outlays as undistributed offsetting receipts; (2) the NIPAs include premiums for Parts B and D of Medicare as government receipts, while the budget nets them against outlays; (3) the NIPAs treat Government employee contributions to their pension plans as a transfer of personal income within the household sector (as if the pension system were private), while the budget includes them in governmental receipts; and (4) the NIPAs impute employer contributions for Federal employees' unemployment insurance and workers' compensation.

The income receipts on assets category consists mainly of interest payments received on Government direct loans (such as student loans), rents and royalties

on Outer Continental Shelf oil leases, and, beginning in 2009, dividends received on preferred stock purchased from the Government-sponsored enterprises Fannie Mae and Freddie Mac. The current transfer receipts category consists primarily of deposit insurance premiums, fees, fines and other receipts from both individuals and businesses, less insurance settlements from the National Flood Insurance Program—virtually all of which are netted against outlays in the budget. The current surplus (or deficit) of Government enterprises category is the profit or loss of "Government enterprises," such as the Postal Service, which are business-type operations of Government that usually appear in the budget as public enterprise revolving funds. Depreciation (consumption of enterprise fixed capital) is netted in calculating the current surplus of Government enterprises.

### Federal Sector Current Expenditures

Table 29–1 shows the five major NIPA categories for current expenditures and five subcategories, which differ greatly from the corresponding budget categories.

Government consumption expenditures consist of goods and services purchased by the Federal Government, including compensation of employees and depreciation on fixed capital. Gross investment (shown among the addendum items in Table 29–1) is thus excluded from current expenditures and does not figure in computing net Government saving on a NIPA basis, whereas depreciation—charges on federally-owned fixed capital ("consump-

**Table 29–2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPAS**

(In billions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>RECEIPTS</b>												
Budget receipts .....	1,853.1	1,782.3	1,880.1	2,153.6	2,406.9	2,568.0	2,524.0	2,105.0	2,162.7	2,303.5	2,468.6	2,902.0
Contributions to government employee retirement plans .....	-4.6	-4.6	-4.6	-4.5	-4.4	-4.3	-4.2	-4.1	-4.1	-4.0	-4.3	-5.0
Capital transfers received .....	-26.4	-21.7	-24.7	-24.6	-27.7	-25.8	-28.6	-23.3	-18.3	-6.8	-10.7	-12.1
Other coverage differences .....	-5.4	-5.4	-6.4	-6.9	-7.0	-7.5	-7.7	-7.8	-8.3	-8.3	-8.9	-9.8
Netting and grossing .....	79.2	87.2	91.5	97.6	110.9	121.8	137.1	168.2	220.6	170.6	157.8	219.3
Timing differences .....	-17.9	22.6	27.7	31.6	12.6	-15.4	-61.7	5.5	13.2	59.3	59.8	30.0
<b>NIPA current receipts .....</b>	<b>1,878.1</b>	<b>1,860.3</b>	<b>1,963.7</b>	<b>2,246.9</b>	<b>2,491.2</b>	<b>2,636.9</b>	<b>2,558.9</b>	<b>2,243.4</b>	<b>2,365.9</b>	<b>2,514.2</b>	<b>2,662.2</b>	<b>3,124.3</b>
<b>EXPENDITURES</b>												
Budget outlays .....	2,010.9	2,159.9	2,292.8	2,472.0	2,655.1	2,728.7	2,982.5	3,517.7	3,456.2	3,603.1	3,795.5	3,803.4
Government employee retirement plan transactions .....	33.6	33.0	33.2	38.9	41.6	39.9	52.0	30.7	51.2	58.3	62.3	49.8
Deposit insurance and other financial transactions .....	-9.2	-1.8	-0.9	-0.5	-9.8	-12.7	-57.9	-514.6	-34.7	26.4	-94.1	-96.2
Capital transfer payments .....	-45.1	-45.7	-46.8	-65.1	-51.8	-53.1	-59.2	-236.3	-142.2	-103.5	-140.1	-114.8
Net purchases of nonproduced assets .....	-0.3	-0.1	-0.1	0.7	0.3	13.9	10.0	16.6	-0.1	0.2	1.2	1.4
Net investment .....	0.3	-4.7	-7.3	-9.5	-13.6	-15.1	-22.7	-33.0	-35.6	-25.3	-16.2	-8.4
Other coverage differences .....	10.9	-1.9	-8.2	-12.4	-23.3	9.7	20.9	396.8	149.4	52.6	112.3	143.1
Netting and grossing differences .....	79.2	87.2	91.5	97.6	110.9	121.8	137.1	168.2	220.6	170.6	157.8	219.3
Timing differences .....	-4.7	1.1	3.1	8.6	-6.5	9.6	15.0	-8.1	-6.1	21.8	-10.6	-11.3
<b>NIPA current expenditures .....</b>	<b>2,075.6</b>	<b>2,227.0</b>	<b>2,357.4</b>	<b>2,530.2</b>	<b>2,702.7</b>	<b>2,842.8</b>	<b>3,077.8</b>	<b>3,337.9</b>	<b>3,658.8</b>	<b>3,804.1</b>	<b>3,868.1</b>	<b>3,986.4</b>
<b>ADDENDUM</b>												
Budget surplus or deficit (-) .....	-157.8	-377.6	-412.7	-318.3	-248.2	-160.7	-458.6	-1,412.7	-1,293.5	-1,299.6	-1,326.9	-901.4
NIPA net Federal Government saving .....	-197.5	-366.7	-393.8	-283.4	-211.5	-205.9	-518.9	-1,094.5	-1,292.9	-1,289.9	-1,205.8	-862.1

tion of general government fixed capital”)—is included. The NIPAs treat State and local investment and capital consumption in the same way—regardless of the extent to which it is financed with Federal aid (capital transfer payments) or from State and local own-source receipts.

Although gross investment is not included in Government current expenditures, Government gross investment is included in total GDP along with current consumption expenditures (including depreciation), which makes the treatment of the government sector in the NIPAs similar to that of the private sector. Investment includes structures, equipment, and computer software.

The largest expenditure category consists mainly of current transfer payments for Government income security and health benefits, such as Social Security and Medicare. Payment of pension benefits to former Government employees is not included, as explained previously. Grants-in-aid to State and local governments help finance a range of programs, including income security, Medicaid, and education (but capital transfer payments for construction of highways, airports, waste-water treatment plants, and mass transit are excluded). “Current transfer payments to the rest of the world (net)” consists mainly of grants to foreign governments and U.S. territories.

Interest payments consist of the interest paid by the Government on its debt (excluding debt held by trust funds, other than Federal employee pension plans; and other Government accounts). Where the budget nets interest received on loans against outlays, the NIPAs treat it as current receipts.

Subsidies consist of subsidy payments for resident businesses (excluding subsidies for investment). NIPA subsidies do not include the imputed credit subsidies estimated as budget outlays under credit reform. Rather, as explained previously loans and guarantees are excluded from the NIPAs except for associated interest and fees.

Wage disbursements less accruals is an adjustment that is necessary to the extent that the wages paid in a period differ from the amount earned in the period.

The addendum to Table 29–1 shows the capital transfers and net investment adjustments necessary to bridge between NIPA current receipts and expenditures and total receipts and expenditures.

### Differences in the Estimates

Since the introduction of the unified budget in January 1968, NIPA current receipts have been greater than budget receipts in most years. This is due principally to grossing differences and the fact that estate and gift taxes, which the NIPAs exclude as capital transfers, have been roughly matched by Medicare premiums, which the NIPAs include as a government receipt, but the budget treats as an offsetting receipt that is netted against the outlay total. Since 1986, NIPA current expenditures have usually been higher than budget outlays (from which the Medicare premiums and employer retirement contributions are netted out as offsetting receipts), despite the omission from NIPA expenditures of capital transfer grants and pension benefit payments to former Government employees.

Two components of budget outlays, however, are sometimes sufficiently large in combination to exceed the usual netting and grossing adjustments. These are financial transactions and net investment (the difference between gross investment and depreciation). Large outlays associated with resolving the failed savings and loan associations and banks in 1990 and 1991 caused those year’s budget outlays to exceed NIPA current expenditures. With the change in budgetary treatment of direct loans in 1992 under credit reform, the cost of direct loans to the public recorded in the budget has been reduced, bringing it closer to the NIPA treatment. Disbursement and repayment of loans made since that time are recorded outside the budget; only credit subsidies are recorded as budget outlays, unlike the NIPAs which do not include this element of government expenditure.

Every year during the period 1975–1991, the budget deficit showed a larger fiscal imbalance than the amount of (negative) net Federal Government saving as measured in the NIPAs. The largest difference, \$74.1 billion, occurred in 1991 as a result of resolving failed financial institutions as discussed above; the budget deficit was then \$269.2 billion, while the NIPA net Government saving was \$195.1 billion. Beginning in 1992, deposit insurance and other financial transactions caused the relationship to reverse, and in 1992–2002, the budget deficit or surplus showed a more positive fiscal picture than the NIPA measure, with NIPA (negative) net Federal Government saving exceeding in magnitude the budget deficit when the budget was in deficit and (positive) net Federal Government saving falling short of the budget surplus during the years the budget was in surplus. For 2003–2006, the budget deficit was once again a larger negative than NIPA net Federal Government saving, largely due to timing and coverage differences. The budget measure was less negative again in 2007 and 2008 due to sales of nonproduced assets and unusual swings in timing differences and financial transactions in those years. For 2009, the difference was historically high, \$318.2 billion, due primarily to differing treatment of TARP and other financial stabilization measures. In 2010 and 2011, the Budget deficit remained a larger negative than the NIPA net saving measure, but of a much smaller magnitude than the outlying year of 2009. It is projected to continue to be a larger negative in 2012 and 2013.

Table 29–1 displays Federal transactions using NIPA concepts with actual data for 2002–2011 and estimates for 2012 and 2013 consistent with the Administration’s Budget proposals. Table 29–2 summarizes the reasons for differences between the NIPA and budget measures. Annual NIPA data for 1948–2013 are published in Section 14 of a separate budget volume, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2013*.

Detailed estimates of NIPA current receipts and expenditures consistent with the Budget and including quarterly estimates will be published in a forthcoming issue of the Department of Commerce publication, *Survey of Current Business* and on the Bureau of Economic Analysis website at [www.bea.gov](http://www.bea.gov).





## 30. COMPARISON OF ACTUAL TO ESTIMATED TOTALS

In successive budgets, the Administration publishes estimates of the surplus or deficit for a particular fiscal year. Initially, the year appears as an outyear projection at the end of the budget horizon. In each subsequent budget, the year advances in the estimating horizon until it becomes the “budget year.” One year later, the year becomes the “current year” then in progress, and the following year, it becomes the just-completed “actual year.”

The budget is legally required to compare budget year estimates of receipts and outlays with the subsequent actual receipts and outlays for that year. Part I of this chapter meets that requirement by comparing the actual re-

sults for 2011 with the current services estimates shown in the 2011 Budget, published in February 2010.

Part II of the chapter presents a broader comparison of estimates and actual outcomes. This part first discusses the historical record of budget year estimates versus actual results over the three decades. Second, it lengthens the focus to estimates made for each year of the budget horizon, extending four years beyond the budget year. This longer focus shows that the differences between estimates and the eventual actual results grow as the estimates extend further into the future.

### PART I: COMPARISON OF ACTUAL TO ESTIMATED TOTALS FOR 2011

#### Receipts

This part of the chapter compares the actual receipts, outlays, and deficit for 2011 with the current services estimates shown in the 2011 Budget, published in February 2010.<sup>1</sup> This part also presents a more detailed comparison for mandatory and related programs, and reconciles the actual receipts, outlays, and deficit totals shown here with the figures for 2011 previously published by the Department of the Treasury.

Actual receipts for 2011 were \$2,303 billion, \$280 billion less than the \$2,583 billion current services estimate in the 2011 Budget. As shown in Table 30–1, this decrease was the net effect of legislative and administrative changes that differed from what was assumed in the current services estimate, economic conditions that differed from what had been expected, and technical factors that resulted in different tax liabilities and collection patterns than had been assumed.

*Policy differences.* The February 2010 current services estimate of 2011 receipts reflected permanent extension of estate and gift taxes at parameters in effect for calendar year 2009 (a top rate of 45 percent and an exemption amount of \$3.5 million), annual indexation of the 2009 parameters of the AMT as enacted in the American Recovery and Reinvestment Act, and permanent extension of most of the income tax reductions enacted in 2001 and 2003 (as amended by subsequent legislation) that were scheduled to expire on December 31, 2010. Those extensions

<sup>1</sup> The current services concept is discussed in Chapter 27, “Current Services Estimates.” For mandatory programs and receipts, the February 2010 current services estimate was based on laws then in place, adjusted to reflect extension of certain expiring tax provisions and relief from scheduled reductions in Medicare physician payments. For discretionary programs the current services estimate was based on the current year enacted appropriations, adjusted to reflect full-year funding of Overseas Contingency Operations and increased for inflation. The current services estimates published in the 2011 Budget re-classified Pell Grant costs as mandatory. This proposal was not subsequently enacted, so all Pell Grant costs are shown as discretionary in this chapter for comparability. For a detailed explanation of the 2011 estimate, see “Current Services Estimates,” Chapter 26 in *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2011*.

**Table 30–1. COMPARISON OF ACTUAL 2011 RECEIPTS WITH THE INITIAL CURRENT SERVICES ESTIMATES**

(In billions of dollars)

	Estimate (February 2010)	Changes				Actual
		Enacted legislation/ administrative actions	Different economic conditions	Technical factors	Net change	
Individual income taxes .....	1,126	–76	–21	62	–35	1,091
Corporation income taxes .....	293	–78	2	–35	–111	181
Social insurance and retirement receipts .....	935	–81	–24	–12	–116	819
Excise taxes .....	80	–3	–1	–3	–8	72
Estate and gift taxes .....	24	–12	.....	–4	–17	7
Customs duties .....	29	–*	*	1	1	30
Miscellaneous receipts .....	97	–*	3	3	6	103
<b>Total receipts .....</b>	<b>2,583</b>	<b>–250</b>	<b>–41</b>	<b>12</b>	<b>–280</b>	<b>2,303</b>

\* \$500 million or less.

were estimated to reduce 2011 receipts by a net \$199 billion relative to then-current law. Several laws were enacted after February 2010 that reduced 2011 receipts by a net \$250 billion more than the \$199 billion in net tax reductions reflected in the current services estimate. The largest net reductions in 2011 receipts relative to what was assumed in the current services estimate were provided by the Small Business Jobs Act of 2010 and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act, which was enacted in December 2010. The major provisions of these Acts that contributed to this net reduction included: the extension and increase in temporary bonus depreciation for certain property to 100 percent of the adjusted basis of the property; the temporary two-percentage point reduction in the Social Security payroll tax rate for employees and self-employed individuals; and the temporary modification of estate, gift, and generation-skipping transfer taxes (a top rate of 35 percent and an exemption amount of \$5 million).

*Economic differences.* Differences between the economic assumptions upon which the current services estimates were based and actual economic performance reduced 2011 receipts by a net \$41 billion below the February 2010 estimate. These differences had the greatest effect on individual income taxes and social insurance and retirement receipts, reducing those sources of receipts by \$21 billion and \$24 billion, respectively. The reduction in individual income tax receipts was primarily attributable to lower wages and salaries and other sources of taxable personal income than were assumed in February 2010. Lower wages and salaries and proprietors' income – the tax base for Social Security and Medicare payroll taxes – were in large part responsible for the reduction in social insurance and retirement receipts. These reductions in individual income taxes and social insurance and retirement receipts were partially offset by net increases in other sources of receipts of \$4 billion. Corporations were more profitable, which increased collections of corporation income taxes \$2 billion above the February 2010 estimate. Lower gross domestic product (GDP) contributed to the decline in the demand for taxed goods, which reduced collections of excise taxes \$1 billion below the February 2010 estimate. Increases in deposits of earnings by the Federal Reserve System, attributable to different interest rates and other economic factors than assumed, increased collections of miscellaneous receipts by \$3 billion.

*Technical factors.* Technical factors, which had the greatest effect on collections of individual and corporation income taxes and social insurance and retirement receipts, increased receipts by a net \$12 billion relative to the February 2010 current services estimate. The models used to prepare the February 2010 estimates of individual and corporation income taxes were based on historical economic data and then-current tax and collections data that were all subsequently revised. These revisions indicated that: (1) sources of income that are not part of the economic forecast, but subject to tax, such as capital gains and pensions, differed from what was expected at the time the February 2010 estimates were prepared; (2) for most sources of income subject to individual and corporation

income taxes, both the percentage that was subject to tax and the effective tax rate on the portion subject to tax differed from what was anticipated; and (3) the timing of the payment of tax liability was different from what had been assumed. These revisions in economic, tax, and collections data and their effect on income tax liability and the timing of collections, relative to what was assumed when the February 2010 estimates were prepared, increased individual income taxes \$62 billion relative to the February 2010 estimate but had the opposite effect on corporation income taxes, reducing that source of receipts \$35 billion relative to the February 2010 estimate. The \$12 billion reduction in social insurance and retirement receipts relative to the February 2010 estimate was also attributable, in large part, to models based on historical economic data that overstated the percentage of wages and salaries and self-employment earnings subject to Social Security payroll taxes. Technical factors had a much smaller effect on other sources of receipts, reducing collections by a net \$3 billion.

### Outlays

Outlays for 2011 were \$3,603 billion, \$125 billion less than the \$3,728 billion current services estimate in the 2011 Budget.

Table 30–2 distributes the \$125 billion net decrease in outlays among discretionary and mandatory programs and net interest.<sup>2</sup> The table also shows rough estimates according to three reasons for the changes: policy; economic conditions; and technical estimating differences, a residual.

Policy changes are the result of legislative actions that change spending levels, primarily through higher or lower appropriations or changes in authorizing legislation, which may themselves reflect responses to changed economic conditions. For 2011, policy changes increased outlays by an estimated \$165 billion relative to the initial current services estimates.

Policy changes increased mandatory outlays by a net \$147 billion above current law. The largest increase was the result of changes in unemployment compensation. Extensions and expansions of unemployment insurance enacted in 2010 and 2011 increased 2011 outlays by \$70 billion. There was a \$30 billion increase in other advancement of commerce as a result of the creation of the Small Business Lending Fund and a \$17 billion increase in Medicaid primarily as a result of the extension, through June 2011, of the increased Federal Government share of State Medicaid costs. Debt service costs associated with the policy changes increased outlays by \$3 billion.

There was a net decrease in outlays of \$42 billion as a result of differences between actual economic conditions

<sup>2</sup> Discretionary programs are controlled by annual appropriations, while mandatory programs are generally controlled by authorizing legislation. Mandatory programs are primarily formula benefit or entitlement programs with permanent spending authority that depend on eligibility criteria, benefit levels, and other factors.

**Table 30-2. COMPARISON OF ACTUAL 2011 OUTLAYS WITH THE INITIAL CURRENT SERVICES ESTIMATES**  
(In billions of dollars)

	Current services (February 2010)	Changes				Actual
		Policy	Economic	Technical	Total changes	
<b>Discretionary:</b>						
Defense .....	704	31	.....	-36	-5	699
Nondefense <sup>1,2</sup> .....	687	-16	.....	-24	-40	648
Subtotal, discretionary .....	1,391	15	.....	-60	-44	1,347
<b>Mandatory:</b>						
Social Security .....	730	-*	*	-5	-5	725
Medicare and Medicaid .....	763	27	5	-40	-8	755
Other programs <sup>1</sup> .....	591	120	-11	-154	-45	546
Subtotal, mandatory .....	2,084	147	-6	-199	-58	2,026
Disaster costs <sup>3</sup> .....	3	.....	.....	-3	-3	.....
Net interest .....	250	3	-36	13	-20	230
Total outlays .....	3,728	165	-42	-249	-125	3,603

\* \$500 million or less.

<sup>1</sup> The current services estimates published in the 2011 Budget re-classified Pell Grant costs as mandatory. The estimate for nondefense discretionary spending was \$672 billion and \$2,103 billion for mandatory outlays in the published Budget. This proposal was not subsequently enacted, so all Pell Grant costs are shown as discretionary in this table for comparability.

<sup>2</sup> The 2013 Budget includes a proposal to change the financing of certain surface transportation programs, which would result in the reclassification of certain activities as to Budget Enforcement Act (BEA) categories. The proposed reclassification is not effective until 2013, but, for purposes of comparability, the Budget estimates show the category reclassifications starting in 2011. These amounts are restored to their original classifications for the purposes of this table.

<sup>3</sup> These amounts were included in the 2011 Budget to represent the statistical probability of a major disaster requiring federal assistance for relief and reconstruction. Such assistance might be provided in the form of discretionary or mandatory outlays or tax relief. These amounts are included as outlays for convenience.

and those forecast in February 2010. The greatest change was in net interest, where lower-than-anticipated interest rates decreased outlays by \$36 billion. Unemployment compensation spending was \$6 billion lower than the current services estimate due to economic factors.

Technical estimating factors resulted in a net decrease in outlays of \$249 billion. Technical changes result from changes in such factors as the number of beneficiaries for entitlement programs, crop conditions, or other fac-

tors not associated with policy changes or economic conditions. Outlays for discretionary programs decreased by \$60 billion, as agencies spent resources more slowly under multiple continuing resolutions due to uncertainty regarding final appropriations levels. Outlays for mandatory programs decreased a net \$199 billion; the largest factor was a \$59 billion downward reestimate of the cost of the Troubled Asset Relief Program driven by better-than-anticipated performance of loans and equity pur-

**Table 30-3. COMPARISON OF THE ACTUAL 2011 DEFICIT WITH THE INITIAL CURRENT SERVICES ESTIMATE**  
(In billions of dollars)

	Current services (February 2010)	Changes				Actual
		Policy	Economic	Technical	Total changes	
Receipts .....	2,583	-250	-41	12	-280	2,303
Outlays .....	3,728	165	-42	-249	-125	3,603
Deficit .....	1,145	415	-*	-261	155	1,300

Note: Deficit changes are outlays minus receipts. For these changes, a positive number indicates an increase in the deficit.

\* \$500 million or less.

**Table 30-4. COMPARISON OF ACTUAL AND ESTIMATED OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW**

(In billions of dollars)

	2011		
	Estimate	Actual	Change
Mandatory outlays: <sup>1, 2</sup>			
Human resources programs:			
Education, training, employment, and social services:			
Higher education .....	16	-26	-42
Other .....	6	11	5
Total, education, training, employment, and social services .....	22	-15	-37
Health:			
Medicaid .....	271	275	4
Other .....	33	35	2
Total, health .....	304	310	6
Medicare .....	492	480	-12
Income security:			
Retirement and disability .....	130	131	1
Unemployment compensation .....	85	117	32
Food and nutrition assistance .....	95	96	1
Other .....	186	183	-3
Total, income security .....	495	526	31
Social security .....	730	725	-5
Veterans benefits and services:			
Income security for veterans .....	58	59	*
Other .....	10	12	2
Total, veterans benefits and services .....	69	70	2
Total, mandatory human resources programs .....	2,112	2,096	-15
Other functions:			
Agriculture .....	18	14	-4
International .....	-2	-3	-1
Mortgage credit .....	5	22	16
Deposit insurance .....	4	-9	-13
Other advancement of commerce (includes the Troubled Asset Relief Program) .....	12	-24	-36
Other functions .....	24	16	-8
Total, other functions .....	62	16	-46
Undistributed offsetting receipts:			
Employer share, employee retirement .....	-79	-80	-1
Rents and royalties on the outer continental shelf .....	-7	-6	1
Other undistributed offsetting receipts .....	-4	-*	3
Total, undistributed offsetting receipts .....	-90	-86	3
Total, mandatory .....	2,084	2,026	-58
Net interest:			
Interest on Treasury debt securities (gross) .....	496	454	-42
Interest received by trust funds .....	-193	-188	5
Other interest .....	-53	-36	17
Total, net interest .....	250	230	-20
Total, outlays for mandatory and net interest .....	2,334	2,256	-78

\* \$500 million or less.

<sup>1</sup> The current services estimates published in the 2011 Budget re-classified Pell Grant costs as mandatory. The estimate for nondefense discretionary spending was \$672 billion and \$2,103 billion for mandatory outlays in the published Budget. This proposal was not subsequently enacted, so all Pell Grant costs are shown as discretionary in this table for comparability.

<sup>2</sup> The 2013 Budget includes a proposal to change the financing of certain surface transportation programs, which would result in the reclassification of certain activities as to Budget Enforcement Act (BEA) categories. The proposed reclassification is not effective until 2013, but, for purposes of comparability, the Budget estimates show the category reclassifications starting in 2011. These amounts are restored to their original classifications for the purposes of this table.

chases, due in part to improved market conditions. There was also a \$30 billion downward reestimate of the cost of student loan programs. Unemployment compensation outlays were \$31 billion lower than current services estimates as a result of technical factors. Net interest outlays increased by \$13 billion due to technical factors.

### Deficit

The preceding two sections discussed the differences between the initial current services estimates and the actual amounts of Federal government receipts and outlays for 2011. This section combines these effects to show the net deficit impact of these differences.

As shown in Table 30–3, the 2011 current services deficit was initially estimated to be \$1,145 billion. The actual deficit was \$1,300 billion, which was a \$155 billion increase from the initial estimates. Receipts and outlays were \$280 billion and \$125 billion less than the initial estimate, respectively. The table shows the distribution of the changes according to the categories in the preceding two sections. The net effect of policy changes for receipts and outlays increased the deficit by \$415 billion. Economic conditions that differed from the initial assumptions in February 2010 had a negligible impact on the deficit. Technical factors decreased the deficit by an estimated \$261 billion.

### Comparison of the Actual and Estimated Outlays for Mandatory and Related Programs for 2011

This section compares the original 2011 outlay estimates for mandatory and related programs in the adjusted baseline of the Budget with the actual outlays. Major examples of these programs include Social Security and Medicare benefits, Medicaid and unemployment compensation payments, agricultural price support payments to farmers, and deposit insurance for banks and thrift institutions. This category also includes net interest outlays and undistributed offsetting receipts.

A number of factors may cause differences between the amounts estimated in the budget and the actual mandatory outlays. For example, legislation may change benefit rates or coverage, the actual number of beneficiaries may differ from the number estimated, or economic conditions (such as inflation or interest rates) may differ from what was assumed in making the original estimates.

Table 30–4 shows the differences between the actual outlays for these programs in 2011 and the current services estimates included in the 2011 Budget.<sup>3</sup> Actual outlays for mandatory spending and net interest in 2011 were \$2,256 billion, which was \$78 billion less than the current services estimate of \$2,334 billion in February 2010.

As Table 30–4 shows, actual outlays for mandatory human resources programs were \$2,096 billion, \$15 billion less than originally estimated. This decrease was the net effect of legislative action, differences between actual and assumed economic conditions, differences between the anticipated and actual number of beneficiaries, and other technical differences. Most significantly, outlays for

<sup>3</sup> See footnote 1 about the current services concept.

**Table 30–5. RECONCILIATION OF FINAL AMOUNTS FOR 2011**  
(In millions of dollars)

	Receipts	Outlays	Deficit
Totals published by Treasury (September 30 MTS) .....	2,302,495	3,601,109	1,298,614
Miscellaneous Treasury adjustments .....	1	-3,023	-3,024
Totals published by Treasury in Combined Statement .....	2,302,496	3,598,086	1,295,590
National Railroad Retirement Investment Trust .....	.....	3,048	3,048
Federal Student Loan Reserve Fund .....	.....	1,215	1,215
Standard Setting Body .....	30	30	.....
Public Company Accounting Oversight Board .....	202	192	-10
Affordable Housing Program .....	198	198	.....
Securities Investor Protection Corporation .....	400	162	-238
Electric Reliability Organization .....	100	100	.....
United Mine Workers of America benefit funds .....	38	38	.....
Other .....	2	-8	-10
Total adjustments, net .....	970	4,975	4,005
Totals in the budget .....	2,303,466	3,603,061	1,299,595
MEMORANDUM:			
Total change since year-end statement .....	971	1,952	981



unemployment compensation increased by \$32 billion for the reasons outlined above, and higher education costs including student loan programs were \$42 billion lower than estimated. Outlays for programs in other functions were \$46 billion less than originally estimated, largely due to lower-than-expected costs for the Troubled Asset Relief Program.

Outlays for net interest were \$230 billion, or \$20 billion less than the original estimate. As shown on Table 30–4, interest payments on Treasury debt securities decreased by \$42 billion due to lower-than-expected interest rates, offset by reduced interest earnings.

### Reconciliation of Differences with Amounts Published by the Treasury for 2011

Table 30–5 provides a reconciliation of the receipts, outlays, and deficit totals for 2011 published by the Department of the Treasury in the September 2011 Monthly Treasury Statement (MTS) and those published in this Budget. The Department of the Treasury made adjustments to the estimates for the Combined Statement of Receipts, Outlays, and Balances, which increased receipts by \$1 million and decreased outlays by \$3,023 million. The primary source of the reduction in outlays was a correction in reporting of general fund payments to the Unemployment Trust Fund. Additional adjustments for the 2013 Budget increased receipts by \$970 million and increased outlays by \$4,975

**Table 30–6. COMPARISON OF ESTIMATED AND ACTUAL SURPLUSES OR DEFICITS SINCE 1982**

(In billions of dollars)

Budget	Surplus (–) or deficit (+) estimated for budget year <sup>1</sup>	Change				Actual surplus (–) or deficit (+)	Total change as a percent of GDP
		Policy	Economic	Technical	Total change		
1982 .....	62	–15	70	11	66	128	2.1
1983 .....	107	12	67	22	101	208	2.9
1984 .....	203	21	–38	*	–17	185	–0.5
1985 .....	195	12	17	–12	17	212	0.4
1986 .....	180	8	27	7	41	221	0.9
1987 .....	144	–2	16	–8	6	150	0.1
1988 .....	111	9	19	16	44	155	0.9
1989 .....	130	22	–10	11	23	153	0.4
1990 .....	91	21	31	79	131	221	2.3
1991 .....	63	–21	85	143	206	269	3.5
1992 .....	281	36	21	–48	9	290	0.2
1993 .....	350	8	13	–115	–95	255	–1.4
1994 .....	264	8	–16	–52	–61	203	–0.9
1995 .....	165	18	–1	–18	–1	164	–0.0
1996 .....	197	–6	–53	–30	–89	107	–1.2
1997 .....	140	–1	4	–121	–118	22	–1.4
1998 .....	121	9	–48	–151	–190	–69	–2.2
1999 .....	–10	22	–56	–82	–116	–126	–1.3
2000 .....	–117	42	–88	–73	–119	–236	–1.2
2001 .....	–184	129	–32	–41	56	–128	0.5
2002 .....	–231	104	201	84	389	158	3.7
2003 .....	80	86	34	177	297	378	2.7
2004 .....	307	122	22	–39	105	413	0.9
2005 .....	364	67	11	–123	–45	318	–0.4
2006 .....	390	141	–6	–277	–142	248	–1.1
2007 .....	354	85	–7	–270	–192	162	–1.4
2008 .....	239	165	98	–44	219	459	1.5
2009 .....	407	595	234	176	1,005	1,413	7.2
2010 .....	1,258	75	121	–160	36	1,294	0.3
2011 .....	1,267	295	–*	–261	33	1,300	0.2
Average .....		69	24	–40	53		0.6
Absolute average <sup>2</sup> .....		72	48	88	132		1.5
Standard deviation .....		118	69	113	221		2.0
Root mean squared error .....		137	73	120	227		2.1

\* \$500 million or less.

<sup>1</sup> Surplus or deficit estimate includes the effect of the Budget's policy proposals.

<sup>2</sup> Absolute average is the average without regard to sign.

million. The largest adjustment relates to a conceptual difference in reporting for the National Railroad Retirement Investment Trust (NRRIT). NRRIT reports to the Department of the Treasury with a one-month lag so that the fiscal year total provided in the Treasury Combined Statement covers September 2010 through August 2011. The Budget has been adjusted to reflect transactions that occurred during the actual fiscal year, which begins October 1. Because the returns on NRRIT's investments in private securities are highly volatile, this adjustment can lead to large changes in the reported fiscal year outlay totals, in this case \$3,048 million for 2011. A similar adjustment for the reporting period for Student Loan Reserve Fund funds

held outside of Treasury led to a \$1,215 million adjustment in the outlay totals. Aside from these timing differences, the Budget includes a number of financial transactions that are not reported to the Department of the Treasury, including those for the Public Company Accounting Oversight Board, the Affordable Housing Program, the Securities Investor Protection Corporation, the Electric Reliability Organization, the Standard Setting Body, and the United Mine Workers of America benefit funds. The Budget also reflects agency adjustments to 2011 outlays reported to Treasury after preparation of the Treasury Combined Statement.

## PART II: HISTORICAL COMPARISON OF ACTUAL TO ESTIMATED SURPLUSES OR DEFICITS

This part of the chapter compares estimated surpluses or deficits to actual outcomes over the last three decades. The first section compares the estimate for the budget year of each budget with the subsequent actual result. The second section extends the comparison to the estimated surpluses or deficits for each year of the budget window: that is, for the current year through the fourth year following the budget year. This part concludes with some observations on the historical record of estimates of the surplus or deficit versus the subsequent actual outcomes.

### Historical Comparison of Actual to Estimated Results for the Budget Year

Table 30–6 compares the estimated and actual surpluses or deficits since the deficit estimated for 1982 in the 1982 Budget. The estimated surpluses or deficits for each budget include the Administration's policy proposals. Therefore, the original deficit estimate for 2011 differs from that shown in Table 30–3, which is on a current services basis. Earlier comparisons of actual and esti-

mated surpluses or deficits were on a policy basis, so for consistency the figures in Table 30–6 are on this basis.

On average, the estimates for the budget year underestimated actual deficits (or overestimated actual surpluses) by \$53 billion over the 30-year period. Policy outcomes that differed from the original proposals increased the deficit by an average of \$69 billion. Differences between economic assumptions and actual economic performance increased the deficit an average of \$24 billion. Differences due to these two factors were partly offset by technical revisions, which reduced the deficit an average of \$40 billion.

The relatively small average difference between actual and estimated deficits conceals a wide variation in the differences from budget to budget. The differences ranged from a \$1,005 billion underestimate of the deficit to a \$192 billion overestimate. The \$1,005 billion underestimate in the 2009 Budget was due largely to enactment of housing, economic stabilization, emergency unemployment assistance, and economic recovery legislation in response to a weak economy, lower 2009 receipts due to weak economic performance, and

**Table 30–7. DIFFERENCES BETWEEN ESTIMATED AND ACTUAL SURPLUSES OR DEFICITS FOR FIVE-YEAR BUDGET ESTIMATES SINCE 1982**

(Dollar amounts in billions)

	Current year estimate	Budget year estimate	Estimate for budget year plus			
			One year	Two years	Three years	Four years
In dollars:						
Average difference <sup>1</sup> .....	55	-53	-150	-213	-243	-264
Average absolute difference <sup>2</sup> .....	85	132	230	306	339	367
Standard deviation .....	113	221	342	410	410	402
Root mean squared error .....	126	227	373	462	476	480
As a percent of GDP:						
Average difference .....	0.5	-0.6	-1.5	-2.0	-2.3	-2.5
Average absolute difference .....	0.8	1.5	2.4	3.0	3.4	3.6
Standard deviation .....	1.0	2.0	2.8	3.3	3.3	3.3
Root mean squared error .....	1.1	2.0	3.2	3.8	4.1	4.2

<sup>1</sup> A positive figure represents an overestimate of the deficit or an underestimate of the surplus.

<sup>2</sup> Average absolute difference is the difference without regard to sign.

emergency supplemental appropriations for combat operations in Iraq and Afghanistan in 2008 and 2009. The \$192 billion overestimate of the deficit in the 2007 Budget stemmed largely from higher-than-anticipated collections of individual and corporation income taxes due to different collection patterns and effective tax rates than initially assumed, as well as lower-than-expected outlays due to technical factors.

Because the average deficit difference obscures the degree of under- and over-estimation in the historical data, a more appropriate statistic to measure the magnitude of the differences is the average absolute difference. This statistic measures the difference without regard to whether it was an under- or overestimate. Since 1982, the average absolute difference has been \$132 billion.

Other measures of variability include the standard deviation and the root mean squared error. These measures calculate the dispersion of the data around the average value. As shown in Table 30–6, the standard deviation of the deficit differences since 1982 is \$221 billion and the root mean squared error is \$227 billion. Similar to the average absolute difference, these measures illustrate the high degree of variation in the difference between estimates and actual deficits.

One challenge in looking at historical values is adjusting for the relative size of the economy and the Federal Government. When total change in the deficit is expressed as a percent of GDP in the Budget year, the average underestimation of the deficit is 0.6 percent of GDP over the thirty-year period. The change from the 2009 Budget to the actual is still the greatest deficit increase over the 30-year period on this basis. The 1998 Budget had the largest downward revision to the deficit as a percent of GDP, going from deficit to surplus.

The large variability in errors in estimates of the surplus or deficit for the budget year underscores the inherent uncertainties in estimating the future path of the Federal budget. Some estimating errors are unavoidable, because of differences between the President's original budget proposals and the legislation that Congress subsequently enacts. Occasionally

such differences are very large, such as additional spending in 2002 for disaster recovery, homeland security, and military operations in Afghanistan in response to the terrorist attacks of September 11, 2001, which could not have been anticipated in the Budget submitted in February 2001. Even aside from differences in policy outcomes, errors in budget estimates can arise from new economic developments, unexpected changes in program costs, shifts in taxpayer behavior, and other factors. The budget impact of changes in economic assumptions is discussed further in Chapter 3 of this volume, "Interactions Between the Economy and the Budget."

### **Five-Year Comparison of Actual to Estimated Surpluses or Deficits**

The substantial difference between actual surpluses or deficits and the budget year estimates made less than two years earlier raises questions about the degree of variability for estimates of years beyond the budget year. Table 30–7 shows the summary statistics for the differences for the current year, budget year, and the four succeeding years. These are the years that are required to be estimated in the budget by the Balanced Budget and Emergency Deficit Control Act, as amended.

On average, the budget estimates since 1982 overstated the deficit in the current year by \$55 billion, but underestimated the deficit in the budget year by \$53 billion. The budget estimates on average understated the deficit in the years following, by amounts growing from \$150 billion one year beyond the budget year to \$264 billion four years beyond the budget year. While these results suggest a tendency to underestimate deficits toward the end of the budget horizon, the averages are not statistically different from zero in light of the high variation in the data. Chapter 3 of this volume, "Interactions Between the Economy and the Budget," further discusses the variability in the difference between estimated and actual deficits over the budget horizon and includes Chart 3–2, which is based on the variability measures shown in Table 30–7.

## 31. BUDGET AND FINANCIAL REPORTING

The budget is a plan for allocating financial resources of the Federal Government and a means to control the allocation of resources. It is also the primary mechanism for reporting fiscal results. Each year, the President's Budget proposes a fiscal plan for the current year and the coming budget year, includes projections for subsequent years, and reports budget results for prior fiscal years. Budget reporting occurs throughout the year with the *Monthly Treasury Statement*, which culminates in the first report of fiscal-year-end results in the September *Monthly Treasury Statement*.

In addition to the budget, another source of financial information for the Government is the annual *Financial Report of the U.S. Government*. The *Financial Report* provides information on the cost of the Government's operations, the relationship between the Government's operating cost and the Government's budget deficit, the Government's financial position at the beginning and end of the fiscal year, and forward-looking information on the Government's financial condition. Financial reporting and budget reporting use much of the same underlying data pertaining to agency financial transactions, but financial reports<sup>1</sup> compile the data using different methods and present the data using different formats,<sup>2</sup> as explained in this chapter.

Although discussed only briefly in this chapter, a third source of Government financial information is the integrated macroeconomic accounts, which are a series of accounts that relate flows of production, income, saving, and investment to financial holdings and physical capital stocks for the major sectors of the U.S. economy.<sup>3</sup> Federal Government financial transactions are included as a separate sector of the integrated accounts. The integrated accounts combine the national income and product accounts with the flow of funds accounts,<sup>4</sup> and the treatment of Federal transactions under national income and

product accounting and under budgetary accounting is compared in Chapter 29 of this volume, "National Income and Product Accounts."

### The Purpose of Budget and Financial Reporting

In a democracy, the Government's sovereign authority to tax and to allocate the proceeds of those taxes to public purposes requires that the Government be accountable to the public for its use of tax dollars and that it be transparent in its activities. Accountability requires reporting the amount of money raised by taxation and other means, the programs on which the money was spent, and whether the money was spent in accordance with the requirements of appropriations, authorizing, and other applicable laws. In addition, accountability requires the Government to report balances for, among other things, cash on hand, other financial assets, and dedicated funds,<sup>5</sup> and to report on Government borrowing needs.

In addition to providing information about how financial resources are obtained and used, accountability requires that the Government provide information about its operating performance. This includes information about the costs and results of Government programs and activities, and the degree to which their performance was efficient or effective. Chapters 7, 8, 9, and 10 of this volume, "Delivering a High-Performance Government," "Program Evaluation," "Benefit-Cost Analysis," and "Social Indicators" provide more information about the Government's operating performance and performance measurement.<sup>6</sup> Unlike a private entity, Government performance cannot be summed up in a single measure such as net income or net loss found on an income statement or net position found on a balance sheet.

The budget and financial reports provide information that the citizenry can use to hold the Government accountable, reporting on how and how well the Government has obtained, used, and managed its financial and other resources. The budget and financial reports seek to provide information in a transparent manner. Transparency is an important element of accountability for past actions, allowing the public to see the assets and liabilities remaining after those actions occurred. Transparency is equally important when looking to the future. Future

<sup>1</sup> As used in this chapter, "Financial Report" refers to the *Financial Report of the United States Government*, which is the consolidated financial report for the Executive Branch and some Legislative and Judicial Branch entities, and "financial reports" refer to both the *Financial Report* and the Agency Financial Reports or the Performance and Accountability Reports issued by Executive Branch agencies. The *Financial Report* is issued by the Department of the Treasury in coordination with the Office of Management and Budget.

<sup>2</sup> Federal financial reporting is conducted in accordance with generally accepted accounting principles (GAAP).

<sup>3</sup> The integrated accounts follow the guidelines of the System of National Accounts 1993 and are prepared jointly by the Bureau of Economic Analysis and the staff of the Board of Governors of the Federal Reserve.

<sup>4</sup> The national income and product accounts show production, income, and expenditures for each sector of the economy and how these measures relate to wealth. Flow of funds accounts show financial flows (in the form of borrowing, lending, and investment) through the various sectors of the economy.

<sup>5</sup> In this chapter, "dedicated" funds or collections refer to those Government collections that are designated for a particular purpose; the collections may be voluntary or compulsory and include collections in trust, special, and revolving funds.

<sup>6</sup> The measures shown in Chapter 10 reflect both Federal Government performance and performance of the private sector, the non-profit sector, State and local governments, and international entities, and cannot, therefore, be viewed as solely the result of Federal Government performance.



plans can only be evaluated based on how clearly and how completely they are explained.

As a financial plan, the President's Budget contains detailed information about the Government's fiscal policies for the coming fiscal year and the ten-year budget window. In addition, the Budget provides long-term (75-year) information about projected spending and projected receipts in Chapter 5 of this volume, "Long Term Budget Outlook." The *Financial Report* also contains information about the Government's long-run fiscal condition, showing projections of long-run sustainability and detailed information about social insurance<sup>7</sup> programs. The detailed historical and projected information contained in the Budget and the financial reports provide the public with transparent information about the Government's financial activities.

### The Budget

As noted above, the budget serves as both a forward-looking planning tool and a backward-looking accountability report. To serve these dual purposes, the President's Budget contains both budget projections and historical budget data. The budget projections and historical data contain measures that represent flows or amounts over a period of time (usually a year) and measures that represent balances or amounts at a point in time (such as at the end of a fiscal year). These budget measures generally reflect either a cash basis or an accrual basis of accounting. Cash-based measures record transactions when cash is either paid or received, regardless of when the expense is incurred or when the revenue is earned or due, and accrual-based measures record transactions when the underlying transaction occurs regardless of when the cash is exchanged.

### Measures

Budget measures that represent flows include budget authority, obligations, outlays, receipts,<sup>8</sup> and the deficit or surplus. Budget measures that represent balances at a point in time are referred to as "stocks" in budgetary accounting and economics literature, and include debt held by the public, debt net of financial assets, and gross Federal debt.

Budget authority is the amount of resources made available by the Congress and the President for use during a given period, usually a year. Obligations are legal financial commitments incurred during a year and cannot exceed the available budget authority. Both budget authority and obligations are generally recorded when a transaction occurs, rather than when cash is actually

received or paid out by the Government.<sup>9</sup> Budget authority and obligations are used to control the amount of resources the Government uses. Government agencies record their use of budget authority, or obligations, on an ongoing basis as they conduct business so that they do not exceed the resources provided.

Outlays are the liquidation or payment of obligations during a year, and are measured primarily on a cash basis.<sup>10</sup> Whereas budget authority and obligations are used to control the amount of resources used, outlays reflect the actual use of Government resources and can have an impact on the economy. If outlays exceed Government receipts, the Government generally must borrow money from the public to cover the difference. Receipts are inflows of financial resources to the Government during a year resulting from the Government's sovereign authority to impose taxes or otherwise compel payment and are measured on a cash basis. Because the deficit or surplus is the difference between outlays and receipts for a given year, it represents an annual flow and (like outlays and receipts) is measured primarily on a cash basis.

In contrast to all of these measures that generally represent flows, the debt held by the public is a stock measure and it can be viewed as the accumulation of past deficits less past surpluses. Debt held by the public is measured as the principal amount due at maturity (also called par value or face value) less any unamortized discount or plus any unamortized premium.<sup>11</sup> Chapter 12 of this volume, "Budget Concepts," and Chapter 6 of this volume, "Federal Borrowing and Debt," contain more complete definitions of these concepts.

The President's Budget presents budget authority, obligations, outlays, and receipts at a summary level, for example, for the Government as a whole and by agency.

<sup>9</sup> Budget authority and obligations for loans and loan guarantees, or credit programs, are measured on a net present value basis. The present value of the cash outflows and inflows associated with the loan or loan guarantee is recorded as budget authority and obligations when the loan or guarantee is made. A present value represents the value today of some future amount and, thus, reflects the time value of money. A present value can be used as an accrual measure. In addition to being used for Federal credit programs, present values are used in budgetary accounting for Federal employee defined-benefit pension plans.

<sup>10</sup> In contrast to most Government outlays, which are measured on a cash basis, outlays for interest on debt held by the public are measured on an accrual basis. Budget authority and obligations for interest on debt held by the public are measured on an accrual basis, which is generally consistent with budget authority and obligations measures for most other programs. Outlays for credit programs are measured on a net present value basis with the present value of the cash outflows and inflows recorded as an outlay when the loan or guarantee is made. From an agency perspective, budget authority, obligations, and outlays for Federal employee defined-benefit pension plans are recorded on an accrual basis (with the actuarially accruing defined-benefit costs estimated by using present values). From a government-wide perspective, however, budget authority, obligations, and outlays for Federal employee defined benefit pensions are recorded on a cash basis. This is because agency payments to a Government defined-benefit pension plan—such as Military Retirement or Civil Service Retirement—are recorded as collections by the plan trust funds and net to zero within the unified budget. As a consequence of this netting, only the defined-benefit payments to current retirees constitute budget authority, obligations, and outlays in the budget, and only these payments are reflected in the deficit.

<sup>11</sup> For inflation-indexed securities, debt is measured as the par value plus a periodic adjustment for inflation.

<sup>7</sup> As used in this chapter, "social insurance" refers to Social Security, Medicare, Unemployment Insurance, Railroad Retirement, and the Black Lung Programs.

<sup>8</sup> The term "receipts" is used in this chapter to refer to governmental receipts. It does not refer to other collections such as offsetting receipts or offsetting collections, nor does it refer to the repayment of loans. See Chapter 12 of this volume, "Budget Concepts," for an explanation of the difference between governmental receipts and offsetting receipts and the difference between offsetting receipts and collections.



In addition, the Budget presents all four of these measures at a very detailed level, by program, activity, and account. In addition to summary and detailed budget data, the Budget presents total obligations by object class and total budget authority and outlays by function and sub-function. The Budget presents the deficit (or surplus) and debt held by the public (and other measures) in nominal and inflation-adjusted dollar amounts, and as a percent of gross domestic product (GDP).<sup>12</sup>

Summary and detailed data for budget authority, obligations, outlays, and receipts; object class data; and functional classification data are reported for the prior fiscal year, the current fiscal year, and the budget year. In addition, many of these measures are presented for the entire ten-year budget horizon, and the summary measures are presented historically, in the *Historical Tables* volume, and projected for 75 years in Chapter 5 of this volume, “Long Term Budget Outlook.”

### Structure

The President’s Budget is a multi-volume document, consisting of the main *Budget* volume, the *Budget Appendix*, the *Analytical Perspectives* volume, the *Historical Tables*, the *Federal Credit Supplement*, and other supplemental materials. In addition, the *Mid-Session Review*, with revised budget estimates, is issued later in the calendar year, in the middle of the Congressional session. The main *Budget* volume is primarily a textual summary of the budget, discussing the Administration’s fiscal plan, including its policy and program priorities, and significant proposed changes to current law.<sup>13</sup> The *Budget Appendix* contains the proposed appropriations language for each program, activity, or account that receives an appropriation, whether the appropriation is annual, biennial, or permanent. The *Analytical Perspectives* volume provides historical and cross-cutting analyses of the budget, and the *Historical Tables* volume reports historical data for summary budget measures; many are expressed in nominal and inflation-adjusted dollars and as a percent of GDP. The *Federal Credit Supplement* provides detailed information about the Government’s loan and loan guarantee programs that are governed by the Federal Credit Reform Act (FCRA). In addition to the documents that comprise the President’s Budget, the budget transmittal to the Congress involves the transmittal of Congressional Budget Justifications for each agency subject to the appropriations process and the transmittal of authorizing legislation in support of the President’s Budget.

### The Financial Reports

As noted above, financial reports are primarily an accountability tool. The Government’s financial reports are not plans, although they provide information that can be

<sup>12</sup> The deficit and debt, as well as other measures, are presented as a percent of gross domestic product because comparisons of these measures over time are best done by looking at these measures in relation to the size of the economy as a whole, as measured by GDP.

<sup>13</sup> Budget data reflect all three Branches of Government, but the Budget documents reflect proposals for the Executive Branch only.

used in developing a fiscal plan. The *Financial Report* provides information about the Government’s financial position at the end of the prior fiscal year, and how the financial position changed during the course of the fiscal year. In addition, like the budget, the financial reports contain measures<sup>14</sup> that represent flows and measures that represent balances at a point in time or stocks. The financial reports contain measures that are reported on modified-cash and accrual bases of accounting and the *Financial Report* is intended for five groups of users: citizens, citizen intermediaries (such as the media or non-profit groups that monitor Government activities), the Congress, Federal executives, and program managers.

### Measures

The financial reporting measures that represent flows include revenues, expenses, and net operating cost, which is the difference between revenues and expenses. The measures that represent stocks include assets, liabilities, and net position, which is the difference between assets and liabilities. The most widely cited of these measures are the net operating cost and net position.

Generally, roughly 10 percent of the Government’s revenues are recognized on an accrual basis in the financial reports and the remainder, approximately 90 percent of revenues, is recognized on a cash basis; overall, revenues are said to be recognized on a “modified-cash” basis of accounting. Assets (e.g., property, plant, and equipment) are generally measured at historical or acquisition cost, but some assets (e.g., debt and equity securities) are measured at fair market value. Expenses are measured on an accrual basis.

Net operating cost and net position are derived from revenues and expenses, and from assets and liabilities, respectively. Even though they are derived from measures (including revenues) that are not pure accrual measures, both net operating cost and net position are generally considered to be accounted for on an accrual basis.

### Structure

The *Financial Report* consists of seven basic financial statements organized as follows: the Statement of Net Cost, the Statement of Operations and Changes in Net Position, the Reconciliation of Net Operating Cost and Unified Budget Deficit, the Statement of Changes in Cash Balance from Unified Budget and Other Activities, the Balance Sheet, the Statement of Social Insurance,<sup>15</sup> and the Statement of Changes in Social Insurance.<sup>16</sup> Reported with the basic statements are required note disclosures. In addition, the *Financial Report* contains a Management’s Discussion and Analysis section that summarizes the highlights of the statements, required

<sup>14</sup> The term “measures” is used in this chapter to refer to both budget and financial measures; however, the Statements of Federal Financial Accounting Concepts and Standards refer to the financial measures as “elements.”

<sup>15</sup> See footnote 6 for a definition of social insurance.

<sup>16</sup> The Statement of Changes in Social Insurance is a new statement for 2011.

supplementary disclosures (which include a Statement of Long-Term Fiscal Projections), supplementary stewardship information, and the auditor's report. The *Financial Report* is the government-wide report for the Executive Branch, and contains some financial data from the Legislative and Judicial Branches.

Individual agencies produce Agency Financial Reports or Performance and Accountability Reports, which include financial information that is used to develop the *Financial Report* and program performance information that is unique to each agency. The financial statements for agencies consist of four to seven basic statements. Five of the statements are similar to statements in the *Financial Report*: the Statement of Net Cost, the Statement of Operations and Changes in Net Position, the Balance Sheet, and, if applicable, the Statements of Social Insurance and Changes in Social Insurance.<sup>17</sup> Two statements required by agencies are not included in the *Financial Report*: the Statement of Budgetary Resources and, if applicable, the Statement of Custodial Activity.<sup>18</sup>

### Comparison of the Budget and Financial Reports

Revenues in the *Financial Report* and budgetary receipts are quite similar, with revenues recognized on a modified cash basis and receipts recognized on a pure cash basis. The revenues recognized on an accrual basis are those resulting from Government business-like transactions with the public, for example the sale of stamps by the Postal Service, the recreation fees paid at National Parks, and premiums for Supplementary Medicare Insurance; these revenues are referred to as "earned revenues."<sup>19</sup> As noted above, earned revenues are generally 10 percent of total earned and unearned revenues. Because the cash and accrual bases of earned revenues are themselves quite similar and because most revenues are recognized on a cash basis, the difference between total revenues and total receipts tends to be relatively small.

Expenses in the financial reports are recognized on an accrual basis, and in this regard are similar<sup>20</sup> to budgetary obligations. However, because expenses are subtracted from revenues to derive net operating cost, they are more frequently compared with budgetary outlays. In contrast to expenses, outlays are generally recognized on a cash basis.<sup>21</sup> As a result of the difference between cash

<sup>17</sup> Only agencies with social insurance programs are required to prepare the two social insurance statements.

<sup>18</sup> Only agencies with custodial accounts are required to prepare the Statement of Custodial Activity.

<sup>19</sup> Earned revenue may be received before goods or services are provided, in which case it is referred to as "deferred" revenue. Examples include Department of Energy collections from utility companies for the future cost of disposing of nuclear waste, Federal Communications Commission collections from its competitive bidding system for the recovered analog spectrum for licenses that have not been granted, and Postal Service collections for prepaid postage, outstanding money orders, and prepaid P.O. box rentals. The budget recognizes these amounts when they are received.

<sup>20</sup> Undelivered orders are treated as obligations, but are not recognized as expenses. Once an undelivered order is delivered, it is recognized as an expense.

<sup>21</sup> Some items that are reflected in the budget on an accrual basis

**Table 31-1. 2010 BUDGET AND FINANCIAL MEASURES AND CY 2010 INTEGRATED ACCOUNTS MEASURES**

(In Billions of Dollars)

2010 BUDGET MEASURES	
Receipts .....	2,162.7
Less: Outlays .....	3,456.2
Surplus/(Deficit) .....	(1,293.5)
New Borrowing from the Public .....	1,474.2
Debt Held by the Public .....	9,018.9
2010 FINANCIAL MEASURES	
Revenues .....	2,216.5
Less: Expenses .....	4,296.0
Less: Unmatched Transactions .....	0.8
Net Operating Cost .....	(2,080.3)
Assets .....	2,883.8
Less: Liabilities .....	16,356.6
Net Position .....	(13,472.8)
CY 2010 INTEGRATED MACROECONOMIC ACCOUNTS MEASURES	
Current Receipts .....	2,429.6
Less: Current Expenditures .....	3,703.3
Net Saving .....	(1,273.7)
Net Borrowing, Capital .....	1,462.3
Net Borrowing, Financial .....	1,384.7
Assets .....	3,662.20
Less: Liabilities .....	11,100.70
Net Worth .....	(7,438.5)

and accrual accounting, the difference between total expenses (referred to as net cost in the *Financial Report*) and total budgetary outlays can sometimes be significant.

Net operating cost and the budget deficit are the most widely compared measures. They are similar in that both represent the annual increase or decrease in Government resources resulting from financial transactions. The primary difference between net operating cost and the deficit results from the accrual of certain expenses that affect net operating cost, but not the budget deficit. For example, the net operating cost includes certain accrued expenses such as expenses for civilian and military employee retirement and veterans programs, expenses for environmental cleanup and disposal, and depreciation expense. In addition, the full cost of asset acquisitions (or usable segments thereof) are included in the deficit up front, when the asset is acquired, but these costs are included in net operating cost only over time, once the asset begins to be used up or depreciated. Because net operating cost is derived from revenues and expenses and the deficit is derived from receipts and outlays, the difference between net operating cost and the deficit results from the differences, discussed above, between revenues and receipts and between expenses

were noted in footnote 8 above.

es and outlays. Both the deficit and the net operating cost are measures of “cost,” reflecting generally the difference between resources used and collected in a given year.

Liabilities recorded in the financial statements satisfy an accounting definition of that term, which includes, but is not limited to, legal liabilities. This is in contrast to budgetary accounting, where budget authority reflects the legal authority to incur budgetary obligations, obligations are legal commitments, and outlays are the liquidation of those budgetary obligations. Debt held by the public is the primary budgetary stock measure that is cited and it is a legal liability, and it is shown as a liability on the Government’s balance sheet along with other accounting liabilities. Total liabilities (as defined by generally accepted accounting principles), as of 2010, were almost twice the size of debt held by the public.

Assets are generally recorded in the financial statements at either historical cost or at fair market value. The full cost of an asset is recorded as a budget outlay when the asset is purchased, but the asset is generally not reflected in any budget measures after it is acquired. Net position, which is the difference between assets and liabilities, reported in the financial reports does not have a budgetary analog.

The prior fiscal-year data included in the budget and the fiscal-year results reported in the financial reports are generally all taken from the same source, the Federal Agencies’ Centralized Trial-Balance System, known as FACTS I and II. These data are required to be audited for certain Federal agencies<sup>22</sup> and for the government-wide financial statements; the related audit reports, which include audits of prior fiscal year data, are included in the financial reports.

### The Federal Sector of the Integrated Macroeconomic Accounts

The integrated macroeconomic accounts are a series of tables that show production, income, saving, capital formation, financial transactions, and asset valuations for each of six major sectors of the economy. The integrated accounts also show how each sector relates to the other sectors and the economy as a whole. The six sectors include as a separate sector the Federal Government.<sup>23</sup> As noted earlier in this chapter, budget reporting is done primarily for planning and control purposes and financial reporting is done primarily for accountability purposes. The reporting of the integrated macroeconomic accounts data is done primarily for analytic purposes.

The integrated accounts present seven accounts for each of the six sectors of the economy, including the Federal Government sector.<sup>24</sup> These seven accounts re-

fect seven different types of economic activity and include, among others, a balance sheet account, a current account, a capital account, and a financial account.<sup>25</sup> The information presented in the Federal Government sector of the integrated accounts is similar to information presented in the Budget and the financial reports; however, the data in the integrated accounts follow the conventions of national income accounting. As noted above, budget and financial measures are based primarily on transaction data from FACTS I and FACTS II. The integrated accounts use data from the Bureau of Economic Analysis’ national income and product accounts (NIPAs), the Federal Reserve Board’s flow of funds accounts, and other sources.<sup>26</sup>

The data in the integrated accounts are different from those presented in the Budget and financial reports, but the measures presented in the Federal Government sector of the integrated accounts represent the same underlying Government activity as the Budget and financial reports. All three seek to measure the cost or the value of Government activity over a period of time and have measures that reflect the Government’s financial position at a point in time. The measures in the integrated accounts that represent flows include net saving, and net lending/net borrowing and the measures that represent stocks or balances at a point in time include assets, liabilities, and net worth.

The “current” account for the Government sector shows how much the Government contributed to current production and current consumption over a period of time, a quarter or a year. “Current” is used in the integrated accounts to distinguish production and consumption in the current period from production and consumption in other periods. Net saving shown in the current account for the Federal Government sector measures the difference between current receipts and current expenditures. Current receipts include most taxes<sup>27</sup> and fees; some taxes such as the estate and gift taxes are not included in current receipts.<sup>28</sup> Current expenditures include goods and services purchased by the Government (including retirement costs for Federal employees and depreciation expenses for Government fixed assets); social insurance payments; most grants to State, local, and foreign governments; and most subsidies to businesses. Both the Budget and the financial reports show the subsidy cost or the present value cost of Government loans and loan guarantees in the pe-

*nipaweb/Ni\_FedBeaSna/Index.asp.*

<sup>25</sup> The other three accounts are the other changes in volume account, the revaluation account, and the changes in balance sheet account.

<sup>26</sup> The NIPA data can be found at <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1> and the flow of funds data can be found at <http://www.federalreserve.gov/apps/fof/FOFTables.aspx>.

<sup>27</sup> Individual income taxes are reported in the integrated accounts when they are received by the Government, which is the same as in the budget and financial reports. By contrast, corporate income taxes are reported in the integrated accounts when they are accrued, whereas the budget and financial reports show these taxes when they are received by the Government.

<sup>28</sup> Estate and gift taxes are excluded from the current account because they are not taxes on current production or current income, but are instead taxes on the transfer of wealth. As capital transfers from the household sector to the government, these taxes are reflected in the capital account.

<sup>22</sup> Audits are conducted for more than 100 Executive Branch agencies, including the 24 agencies covered by the Chief Financial Officers Act of 1990 and an additional 11 significant Executive Branch entities. Audits are not conducted for some of the smaller entities that are included in the *Financial Report*.

<sup>23</sup> The other five sectors are households and nonprofit institutions serving households, nonfinancial noncorporate business, nonfinancial corporate business, financial business, and State and local governments.

<sup>24</sup> Current data can be found at <http://www.bea.gov/national/>



riod in which the loan or loan guarantee is made. In contrast, the integrated accounts do not show these subsidy costs as expenditures in any period, but they do show in the current account all interest and fees the Government receives from the public for loans and loan guarantees.<sup>29</sup>

If net saving in the current account were positive, the balance would represent an amount that could be used to invest in capital assets or financial assets or to reduce debt. (Investment in capital is necessary to increase future production and future consumption.) Negative net saving reflects the amount that must be financed. Net saving is similar in some ways to both the deficit and the net operating cost because it reflects the difference between inflows and outflows of financial resources over a period of time.

The capital account for the Government sector shows how much the Government contributed to capital formation in the economy as a whole over a period of time, again, a quarter or a year. Net lending/net borrowing in the Government capital account reflects net saving plus net capital formation and capital transfers. Net capital formation is investment in fixed assets less depreciation, so the full cost of asset acquisitions is reflected in the capital account when assets are purchased. Capital transfers are transfers from the Government to another sector of the economy that are linked to the acquisition or disposal of capital assets. For example, capital transfers include capital grants to State and local governments (e.g., grants for highway construction) and capital subsidies to homeowners and businesses (e.g., subsidies for home acquisition or financial stabilization payments to Government sponsored enterprises). In addition, estate and gift taxes (which as noted above are not reflected in the current account) are reflected in the capital account. Because of the inclusion in the capital account of these additional items, net lending/net borrowing in the capital account is more similar to the deficit than to the net operating cost. A positive net lending/net borrowing balance represents an amount that is available for purchasing assets or retiring debt held by the public, and a negative amount represents an amount that must be borrowed.

The financial account for the Government sector shows the Government's financial activity for the year. Net lending/net borrowing in the Government financial account reflects the Government's borrowing needs for the year. It is the change in financial assets held by the Government less the change in debt held by the public, which is reported in the Budget. Theoretically, net lending/net borrowing in the financial account should be the same as net lending/net borrowing in the capital account because saving that is not spent on fixed assets should increase the amount of financial assets held by the Government. Similarly, borrowing that is used to purchase fixed assets leads to financial liabilities. However, because of the differences in when flows are recorded and other statistical differences, the net lending/net borrowing in the capital

account is almost never equal to that of the financial account.

The assets, liabilities, and net worth shown in the balance sheet account for the Federal Government measure the value of the Government's financial and nonfinancial assets, liabilities, and net worth at the end of the calendar year. These measures are similar conceptually to the assets, liabilities, and net position reported on the balance sheet in the financial reports. One difference between the balance sheet account and the balance sheet in the financial reports is that reproducible fixed assets in the balance sheet account are measured at replacement cost whereas the analogous property, plant, and equipment on the balance sheet of the financial reports are measured at acquisition or historical cost. Other differences are the way in which employee retirement liabilities are measured and the exclusion from the balance sheet account of veteran benefits and environmental liabilities.

### Alternative Estimates of Government Assets and Liabilities

The traditional measures of financial position in budget and financial reporting are debt held by the public and net position respectively;<sup>30</sup> they reflect the Government's financial position at a point in time, but not the Government's future financial position. This is because measures of assets and liabilities at any particular point in time do not reflect the full scope of resources available to or responsibilities of the Government into the future. The alternative measures used by OMB to produce a Government balance sheet (shown below) use somewhat different methods from those used in the *Financial Report*, but they do not capture the Government's total future resources or responsibilities. Balance sheet measures reflect only past transactions or events, but the Government's responsibilities will continue into the indefinite future and its primary resource for fulfilling these responsibilities is future tax revenue, which is not reflected on a balance sheet. The best way to assess the Government's long-term financial condition is to compare future spending to future receipts, as is done in Chapter 5, "Long Term Budget Outlook," of this volume.

The Government has many financial assets, including cash, mortgages, other loans, and assets acquired as a result of the crisis in the financial markets. The Government also owns plant and equipment, including military hardware. In addition, the Government owns a substantial amount of land, timber, and mineral resources. Finally, the Government possesses heritage assets (works of art, historical artifacts, and monuments) that, although disclosed in the financial reports, are not reported as assets. The Government's most valuable and unique asset is one that cannot reasonably be reported on any balance sheet—its sovereign power to tax. The Government's authority to levy taxes allows it to participate in the credit

<sup>29</sup> Differences between the NIPAs and the budget are shown in Table 29-2 of this volume and shown in more detail at the NIPA website cited in footnote 25.

<sup>30</sup> As discussed above, net position is derived by subtracting liabilities from assets, and liabilities include debt held by the public.

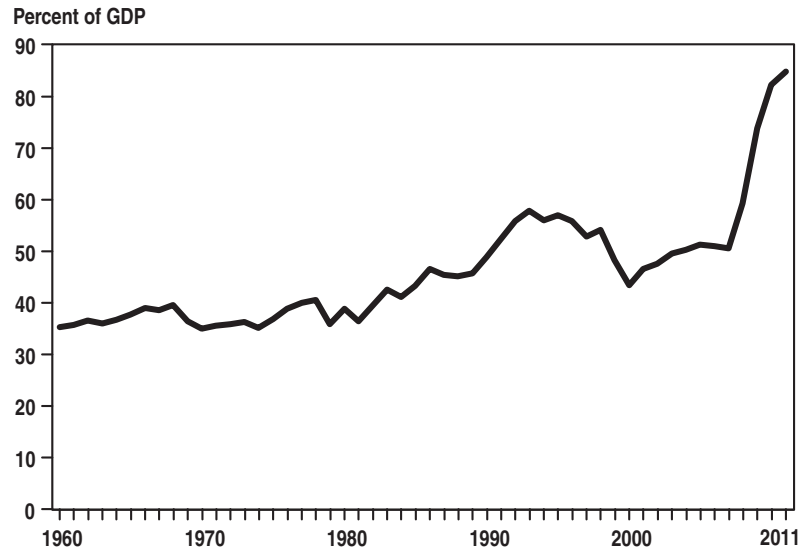
**Table 31-2. GOVERNMENT ASSETS AND LIABILITIES\***  
(As of the end of the fiscal year, in billions of 2011 dollars)

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011
<b>ASSETS</b>																
Financial Assets:																
Foreign Exchange, SDRs, and Gold .....	12	10	20	16	23	41	54	76	51	46	39	39	39	101	99	95
Cash, Checking Deposits, Other Monetary Assets .....	55	78	49	40	62	41	55	55	79	42	61	84	391	288	320	345
Mortgages .....	34	33	49	51	95	97	124	85	96	86	87	88	93	114	109	107
Other Loans .....	126	174	218	217	282	366	259	209	240	226	220	220	223	345	473	498
Less Expected Loan Losses .....	-1	-3	-6	-11	-22	-21	-24	-31	-47	-46	-52	-47	-51	-85	-66	-52
Other Treasury Financial Assets .....	65	86	64	62	84	116	196	224	299	333	331	328	313	450	379	376
Subtotal .....	291	377	394	376	524	640	663	619	718	686	687	711	1,008	1,212	1,315	1,369
Nonfinancial Assets:																
Fixed Reproducible Capital .....	1,271	1,261	1,312	1,273	1,205	1,363	1,413	1,419	1,248	1,251	1,267	1,257	1,293	1,321	1,314	1,383
Defense .....	1,095	1,029	1,041	950	853	992	1,017	993	813	788	801	799	830	843	845	891
Nondefense .....	176	232	272	323	353	372	396	426	435	463	466	458	463	478	470	492
Inventories .....	333	288	268	240	297	339	300	231	237	308	309	296	302	295	293	296
Nonreproducible Capital .....	166	218	260	442	717	634	606	486	799	1,450	1,479	1,474	1,074	830	900	942
Land .....	117	162	204	323	413	429	441	324	560	1,012	1,041	977	698	454	431	463
Mineral Rights .....	50	56	56	119	305	205	165	162	239	437	438	497	376	376	469	479
Subtotal .....	1,770	1,767	1,841	1,955	2,219	2,336	2,319	2,137	2,284	3,009	3,055	3,027	2,669	2,447	2,507	2,621
Total Assets .....	2,060	2,144	2,235	2,331	2,743	2,976	2,982	2,756	3,002	3,694	3,741	3,738	3,677	3,659	3,822	3,989
<b>LIABILITIES</b>																
Debt held by the Public .....																
1,451	1,492	1,329	1,350	1,678	2,775	3,777	5,017	4,361	5,202	5,298	5,383	6,053	7,830	9,234	10,128	
Insurance and Guarantee Liabilities:																
Deposit Insurance .....	0	0	0	0	2	12	91	25	1	1	1	3	36	75	111	32
Pension Benefit Guarantee .....	0	0	0	55	40	55	55	26	52	93	81	88	77	96	105	107
Loan Guarantees .....	0	1	3	8	16	13	20	38	47	54	53	74	77	73	69	64
Other Insurance .....	40	36	28	25	34	21	25	22	21	46	22	18	22	16	16	25
Subtotal .....	40	36	31	88	92	101	191	111	121	194	157	182	212	259	300	228
Pension and Post-Employment Health Liabilities:																
Civilian and Military Pensions .....	1,096	1,377	1,648	1,867	2,295	2,277	2,223	2,155	2,254	2,457	2,541	2,582	2,721	2,809	2,965	2,981
Retiree Health Insurance Benefits .....	224	282	337	382	470	466	455	450	499	1,274	1,242	1,227	1,213	1,223	1,290	1,185
Veterans Disability Compensation .....	241	303	362	401	412	340	306	371	707	1,272	1,266	1,206	1,530	1,367	1,510	1,534
Subtotal .....	1,561	1,962	2,347	2,651	3,177	3,083	2,984	2,977	3,460	5,003	5,049	5,014	5,464	5,399	5,765	5,700
Environmental and Disposal Liabilities .....	84	106	127	144	172	205	240	316	385	294	335	366	358	355	329	324
Other Liabilities:																
Currency and SDRs .....	16	17	31	38	46	42	49	50	42	42	41	40	38	91	88	86
Trade Payables .....	18	26	27	37	71	103	148	115	104	227	235	256	297	229	232	227
Benefits Due and Payable .....	26	31	42	44	56	63	75	87	100	133	142	143	151	167	168	171
Subtotal .....	61	73	100	119	173	208	272	252	245	401	418	439	486	486	489	484
Total Liabilities .....	3,197	3,670	3,933	4,352	5,293	6,372	7,464	8,673	8,573	11,095	11,257	11,384	12,572	14,329	16,116	16,863
Net Liabilities (Liabilities Minus Assets) .....	1,137	1,526	1,698	2,021	2,549	3,396	4,482	5,917	5,571	7,400	7,515	7,646	8,896	10,670	12,294	12,873
Addenda:																
Ratio to GDP (in percent) .....	35.3	37.7	35.0	36.8	38.8	43.3	48.9	57.0	43.5	51.3	51.0	50.6	59.2	73.9	82.2	84.8

\* This table shows assets and liabilities for the Government as a whole excluding the Federal Reserve System. Data for 2011 are extrapolated in some cases.



Chart 31-1. Net Federal Liabilities



markets even though its liabilities exceed its measurable assets.

The Government's liabilities include debt held by the public, Federal employee and veterans health and pension benefits, insurance obligations, loan guarantees, environmental liabilities, and certain entitlement benefits that are due and payable. These liabilities, however, are only a subset of the Government's long-run budget responsibilities. Just as the power to tax or future tax revenue is not shown as an asset on the balance sheet, the majority of the Government's long-term commitments are not reported on the balance sheet.

For many years, the *Analytical Perspectives* volume has included a table of assets and liabilities, shown here as Table 31-2, and a chart showing the net liabilities as a ratio to GDP. This table is similar in concept to the balance sheet in the *Financial Report*, but it was designed to show a consistent historical series of assets and liabilities and it uses economic valuation methods rather than accounting methods for certain entries.<sup>31</sup> The table shows Government assets and liabilities from 1960 through 2011 measured in constant 2011 dollars; the balance of net liabilities is also shown as a ratio to GDP and that ratio can be seen in the chart. As shown in the table and also in the chart, Government liabilities exceeded its assets over the entire period. There was a substantial increase in net liabilities in the 1980s and early 1990s, which was the result of the large budget deficits in those years. In the late 1990s, there was a marked decline in the ratio of net liabilities to GDP as the budget temporarily went into surplus and debt held by the public fell. Beginning in 2001, the ratio began increasing again, and in 2011 it reached a new high because of a sharp increase in debt held by the public as the Government sought to address the financial crisis and the resulting economic downturn.

<sup>31</sup> Land and mineral rights, shown in Table 31-2, are assets that are not reported on the balance sheets in the financial reports. Fixed reproducible capital is reported at acquisition or historical cost on the balance sheets in the financial reports, but is estimated using a model that approximates current replacement value in Table 31-2.

Relative to GDP, the net liability position was 35 percent in 1960 and, although fluctuating over the next two decades, in 1980, it was still less than 40 percent. From 1980 to 1993, the ratio of net liabilities rose to 58 percent of GDP primarily because of the increase in the budget deficits, but by 2000, the ratio had fallen to 44 percent mainly because of a decline in the budget deficit and a temporary shift to budget surpluses. As the deficit reappeared and began to increase again, the net liability position also deteriorated, reaching a plateau of approximately 51 percent in 2004. The ratio has increased since 2007 because of the worldwide financial crisis and the recession. For 2011, the Government's net liabilities were 85 percent of GDP.

*Financial Assets:* The Government's financial assets amounted to about \$1.4 trillion at the end of 2011. Government holdings of mortgages have been relatively stable since the mid-1990s, but holdings of other loans and monetary assets have risen as a result of the Government's actions to resolve the financial crisis. OMB estimates the discounted present value of future losses and interest subsidies on loans to be \$65 billion as of the end of 2011, and this amount was subtracted from the face value of outstanding loans to estimate their net value.

*Non-Financial Assets:* Government-owned stocks of reproducible defense and nondefense capital are similar in concept to property, plant, and equipment. The estimated replacement value of these assets is shown in Table 31-2. It has been relatively stable, between \$1.2 and \$1.4 trillion, for most of the last 50 years. In 1960, 86 percent of the capital was defense; in 2011 it was 64 percent. During the 1970s and again during the 1990s (after the end of the Cold War), there were substantial declines in defense capital.

Although there are no official estimates of the market value of the Government's vast land and mineral holdings, it is assumed here that Federal land values rise and fall along with private land values. Since the mid-1990s, oil prices have been volatile, which has caused the esti-

mated market value of federally-owned proved reserves of oil and natural gas to fluctuate as well. In 2011, as estimated here, the combined real value of Federal land and mineral rights was \$0.9 trillion compared with \$1.5 trillion in 2006.

*Total Assets:* The total value of Government assets was about \$4.0 trillion, equal to 26 percent of GDP, at the end of 2011.

*Debt Held by the Public:* The Government's largest liability is the debt owed to the public, which amounted to \$10.1 trillion at the end of 2011. Publicly held debt declined for several years in the late 1990s because of the shift from unified budget deficits to unified budget surpluses, but began to increase again as deficits returned, and it has increased very substantially since 2007.

*Insurance and Guarantee Liabilities:* The estimates in Table 31-2 reflect the current discounted value of prospective future losses on outstanding guarantees and insurance contracts, not accounting for market risk. Other insurance includes veterans' life insurance, flood, crop, and terrorism insurance. Relative to total liabilities, insurance and guarantee liabilities are small, comprising less than 2 percent of total liabilities in 2011.

*Pension and Post-Employment Health Liabilities:* While the Government's employee pension obligations have risen slowly, there has been a sharp increase in the liability for future health benefits and veterans compensation. The discounted present value of these benefits is estimated to have been around \$5.7 trillion at the end of 2011, which is 65 percent higher than a decade earlier in 2000.

*Environmental and Disposal Liabilities:* During World War II and the Cold War, the Government constructed a vast industrial complex to produce and test nuclear weapons, which resulted in environmental contamination. Ongoing defense and other activities can result in contamination if waste disposal is not carried out prop-

erly. Cleanup and disposal liabilities are estimated to be around \$324 billion in present value terms.

The Government need not maintain a positive balance of net assets to assure its fiscal solvency. Indeed, the increase in the Government's net liability position since 1960 has not significantly affected the Government's creditworthiness, and interest rates on Federal debt have been very low recently, despite the surge in Government borrowing. Nevertheless, there are limits to how much debt any Government can assume without putting its finances in jeopardy.

## Conclusion

Budget and financial reporting each provide the public with detailed information on how the Government raised and spent financial resources. The budget uses a conceptual framework based primarily on cash transactions, as laid out in the 1967 *Report of the President's Commission on Budget Concepts*. The *Budget of the United States Government* is recognized and used widely both within and outside of the Government, and the budget process is the primary way that the Government reaches agreement on public policy goals and allocates resources among competing uses.

Financial reporting uses much the same underlying data as the budget to develop reports prepared in accordance with generally accepted accounting principles promulgated by the Federal Accounting Standards Advisory Board and adopted for Executive Branch agencies by the Office of Management and Budget. Financial reporting focuses on the results of financial operations, including the cost of operations, financial position, and financial condition of the Government. Together, budget and financial reporting provide complementary information and a comprehensive view of the Government's financial resources and responsibilities.





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